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# REPORT OF THE ADMINISTRATOR

1946/47 - 1952/53

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# Report of the Administrator

## of the

# Commodity Exchange Authority

## 1947



UNITED STATES DEPARTMENT OF AGRICULTURE
Commodity Exchange Authority

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# REPORT OF THE ADMINISTRATOR OF THE COMMODITY EXCHANGE AUTHORITY, 1947

United States Department of Agriculture,
Commodity Exchange Authority,
*October 20, 1947.*

Hon. Clinton P. Anderson,
*Secretary of Agriculture.*

Dear Mr. Secretary: I submit herewith a report of the work of the Commodity Exchange Authority for the fiscal year ended June 30, 1947.

Sincerely yours,

J. M. Mehl, *Administrator.*

CONTENTS



## REGULATION OF COMMODITY TRADING IN 1946–47

Rising prices and the postwar boom in speculative activity focused Nation-wide attention on the commodity exchanges in the fiscal year ended June 30, 1947, and greatly increased the regulatory work of the Commodity Exchange Authority in supervising these markets.

Trading data compiled by the CEA showed that the dollar value of transactions in all regulated commodities amounted to 33 billion dollars, or more than double the previous year. The Authority found that speculative activity in cotton futures in the last half of 1946, and in wheat and corn in the spring and summer of 1947, was greater than

at any time since the twenties. The total volume of trading in regulated commodities greatly exceeded the value of securities traded on the stock exchanges. With speculative transactions in stocks curbed by high margin requirements, a large part of the postwar speculative interest sought an outlet in the commodity futures markets, where margin requirements fixed by the exchanges continued at low levels.

The world food scarcity, and the high income level and demand for food in this country, were sharply reflected in the markets. Under these conditions speculative activity tended to accentuate price fluctuations. After the summer and fall of 1946, when price ceilings on the major grains, feedstuffs, and fats and oils were removed, the central price quotations registered on the exchanges again became important guides in the marketing and distribution of these commodities. Cash and futures prices of most commodities advanced markedly during the year; and prices of the major grains and cotton reached the highest levels since the World War I period. In some cases extended price rises were followed by sharp reactions. There was much uncertainty as to future price trends, and greater public interest in futures prices than for many years. With marketing costs and margins no longer geared to wartime controls and fixed prices, merchants, processors, and farmers' marketing associations, had greater need for protection against price risks, as normally afforded by hedging.

Fast-moving markets and thousands of new speculative accounts raised a wide range of regulatory problems.

## INVESTIGATION OF COTTON PRICE COLLAPSE

After a period of sharply rising prices and greatly increased speculative activity in cotton futures during the summer and fall of 1946, on October 16 prices began to break and a near panic ensued. By October 18 the markets were swamped by a wave of liquidation, which forced the exchanges to close. In 2 weeks, cotton prices dropped about 8 cents per pound.

Investigations begun by the CEA on the first day of the price break led to a special call for detailed information on all cotton futures accounts on the New York, New Orleans, and Chicago markets. The investigation covered all accounts in the markets on October 15, 16, 17, and 18. Preliminary reports, confirmed by later detailed analyses, showed that the price break was accelerated and extended by the forced liquidation of many thinly margined accounts, the collapse of two large accounts, and the extension of credit.

The reports showed that on October 15, 1946, the number of accounts in the 3 cotton futures markets was 4,638, of which 3,190 were speculative. Many of these were new speculative accounts attracted to the markets by small margin requirements, which at the time amounted to only 10 to 12 percent of the market price. At mid-October, just at the peak of the cotton-crop movement, when the market was called on to absorb hedge sales, speculators were caught overextended and unable to meet calls for additional margins. In 3 days, October 16–18, nearly one-third of the speculators net long on the eve of the price break were completely "washed out" of the market. Over 80 percent of the accounts liquidated were those of small traders with initial positions of less than 5,000 bales. On the second and third days of the price break, October 17 and 18, medium and large-scale speculators began

liquidating thousands of bales of long positions. The complete results of the CEA investigations were set forth in the publication, Collapse in Cotton Prices, October 1946.

On the basis of the findings, the Secretary of Agriculture pointed out the adverse effects to producers of speculatively induced price spirals, which frequently occur when farmers have little to sell, and collapse before the peak of the marketing season is reached. He recommended a sharp reduction in the permissible amount of speculative commitments in cotton futures.

## SPECULATIVE LIMITS IN COTTON REDUCED

Authority for fixing specific limits on speculative lines is assigned under the Commodity Exchange Act to the Commodity Exchange Commission, consisting of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General. With reference to cotton futures, in 1940 the Commission established daily trading and net position limits of 30,000 bales in any one future on one market, such limits not being applicable to hedging transactions, nor to straddling operations except during the delivery month.

Investigations of the October 1946 price collapse showed that a contributing cause—though not the major cause—was the forced liquidation of two large accounts holding less than 30,000 bales in any one future, but considerably more than that amount in all futures combined. A public hearing was held before the Commodity Exchange Commission on December 10. Upon consideration of the evidence presented, the Commission reduced the maximum permissible speculative holdings in cotton futures from 30,000 bales in any one future on one market to 30,000 bales in all futures combined on one market (effective May 10, 1947).

Under the new limit, speculative lines in cotton futures as large as those held in October 1946 are now prohibited.

## NEW MONTHLY REPORT ON COTTON FUTURES POSITIONS

Basic public information on cotton futures trading has been provided by exchange price quotations and CEA statistical releases, such as the daily reports on volume of trading and open contracts, and the weekly report on cotton unfixed call sales and purchases. The October 1946 break in prices showed the need for the release of additional basic information on the make-up of the cotton markets. In November 1946, the CEA began releasing each month a break-down of the cotton futures positions of the various groups of traders. These monthly reports show the aggregate amounts, long and short, of the speculative, straddling, and hedging commitments of the large-trader group (those with commitments of 5,000 bales or more in any one future on one market), and also the gross amounts, long and short, of the unclassified small-trader holdings.

The information in this report throws new light on cotton-merchandising conditions. Previously, the general import of this information was known to a few large firms because of the magnitude of their operations. With this new report all members of the trade and the public have equal access to this information, and should have a better opportunity to judge the effects of current speculative and hedging activity in the markets. The title of the new monthly report is "Commitments of Large Traders in Cotton Futures."

## THE PROBLEM OF MARGINS

Efforts to maintain the services of the exchanges in the marketing of agricultural commodities, and curb excessive speculation, have been seriously hampered since the war by inadequate margin requirements on speculative trading. Margin rates on commodity futures transactions are determined by the exchanges. The requirements on most commodities in recent years have been 10 to 15 percent or less of the market price. While margins on stock market transactions in registered securities are determined by the Board of Governors of the Federal Reserve System, the Commodity Exchange Act does not grant similar authority with respect to futures trading in commodities.

Although small cash requirements have furnished an unusual inducement to speculators, weakly financed traders have been very poorly equipped to maintain themselves in the fast-moving markets of the postwar period. Thinly margined shorts are quickly forced to cover by rising prices, while longs are "washed out" by temporary reactions. The hasty entrance and exit of weakly margined speculators contributed to accelerate price advances and deepen price declines.

In a letter to Congress of March 26, 1947, transmitting the final report on the October 1946 break in cotton prices, the Secretary called particular attention to the margin problem as applicable to speculative trading in all regulated commodities. He stated:

> It appears that the only way to prevent a price debacle following advances induced by overspeculation is to curb the speculative urge before it reaches the danger point. The only feasible means of doing this is through quick and somewhat arbitrary action in raising margins on speculative positions. It is believed that this could be done without serious loss of market liquidity necessary to facilitate hedging. It is doubtful whether the commodity exchanges can or will exercise margin control in such a manner as to be effective in curbing speculative excesses. Such action necessarily means a loss of commissions and income to brokerage houses . . . The Federal Reserve Board is authorized to fix margins governing trading in securities and this power has been exercised to curb excessive speculation on the stock exchanges. No such authority is provided for in existing laws applicable to trading in commodities.

## GRAIN FUTURES MARGINS

The margin problem in grain futures became acute in February and March 1947. A large speculative interest was attracted to the Chicago wheat futures market where the speculative margin requirement as of March 1 amounted to about 8 to 12 percent of the prevailing prices of the various wheat futures. As prices increased sharply and new buying came into the market, many small traders, until then predominantly short, hastily began covering, or switching to the long side. On March 14, the CEA asked the principal grain futures exchanges to increase speculative margins to at least 25 percent. The Kansas City and Minneapolis exchanges immediately established this requirement for wheat, and on March 18 the Chicago Board of Trade adopted limited increases. The March wheat future at Chicago reached $3.05 per bushel on March 18, before prices reacted. The effect of the March increase in margins was largely nullified in May, however, when the three exchanges again sharply reduced their requirements.

Consequently, low margin rates continued to offer an inducement to grain speculators during the summer and after the close of the fiscal year. In May and June, when corn-crop prospects declined and prices

advanced, a large speculative interest was attracted to the Chicago market. A special survey as of June 30 showed that the bulk of all commitments in the Chicago corn futures market was speculative. Analysis of traders' commitments also showed a marked increase in speculative activity in wheat during the summer.

### GRAIN MARGINS RAISED TO 33⅓ PERCENT

On September 15, 1947, the CEA requested the Chicago, Minneapolis, and Kansas City grain exchanges to increase initial margins on speculative transactions in grain futures to at least 33⅓ percent of the market price, and maintenance margins to 20 percent. The exchanges on September 29 placed in effect sliding-scale increases which were considered inadequate by the Department. On October 6 the Commodity Exchange Commission, by direction of the President, requested all grain futures exchanges to increase minimum initial margin requirements to not less than 33⅓ percent. Pursuant to this request the exchanges increased margins on speculative transactions, effective October 7, to the minimum rate requested. In the period immediately following, the volume of speculative trading in wheat and corn futures declined sharply.

### ADDITIONAL DELIVERY POINTS FOR GRAIN RECOMMENDED

As a means of lessening the possibility of price squeezes in grains, on May 26 the CEA issued a special report recommending the designation of additional terminal markets as delivery points for grain tendered in settlement of Chicago futures contracts. Under present exchange rules wheat and other grains delivered in settlement of futures contracts on the Chicago Board of Trade may be tendered only in Chicago, although "multiple" delivery points are common to other markets and commodities.

The importance of Chicago as a cash grain market has declined. Shipment there to settle futures contracts is uneconomic in many instances. The one-point delivery system increases the difficulties of farmers' marketing agencies and grain merchants attempting to hedge in the Chicago market. Having made hedge sales in futures against cash grain inventories, they run the risk of being caught in squeeze movements near the close of expiring futures, particularly at the end of the crop year. They may be forced to pay toll to speculators in order to lift their hedges. Speculators may be in an advantageous position to bid up prices temporarily, as has happened in the past. Temporary price peaks, stimulated by squeeze movements in futures, do not benefit the farmer, particularly if such peaks occur late in the crop year, as they usually do, when most farmers have little to sell.

### HEDGING OF FOREIGN COTTON INVESTIGATED

Following numerous inquiries regarding the hedging of foreign cotton in American futures markets, the Secretary directed the CEA to make a special investigation of the situation, the results of which were published on February 17, 1947. Though all cotton futures transactions, whether of domestic or foreign origin, have some effect on price, the CEA investigation indicated that the small amount of for-

eign cotton being hedged in American markets did not constitute a burden on these markets.

The books and records of the principal American firms dealing in foreign cotton were checked, and detailed information on a number of foreign cotton interests was also obtained. Among United States cotton firms investigated, the only futures positions classified as hedges against foreign cotton at the end of January consisted of 11,200 bales short, of which about half consisted of hedges against Mexican cotton, and the remaining amount against Peruvian, Brazilian, and Egyptian cotton. Data obtained on foreign firms operating in United States cotton futures showed that these interests held a total of 47,200 bales long and 41,400 bales short at the time of the survey. Extensive export and import regulations, restrictions on the exchange of foreign currencies, and other postwar trade conditions, tended to limit the use of United States cotton futures markets by foreign interests at the time of the survey.

## MANIPULATION OF BUTTER PRICES

On December 22, 1946, the Commodity Exchange Authority began an investigation of butter prices on the New York Mercantile Exchange. Based on the investigation and evidence presented, the United States attorney for the southern district of New York on January 4, 1947, filed a criminal information charging the Dairymen's League Cooperative Association, Inc., of New York, N. Y., with manipulating the price of spot butter in interstate commerce in violation of the Commodity Exchange Act. In order to maintain fluid milk prices, which were linked to butter prices, the Dairymen's League from December 18 to 24, 1946, purchased 668,060 pounds of butter at a manipulated price of not less than 84 cents per pound, the information charged. After a plea of guilty, on January 27 the Dairymen's League and four of its officers were fined a total of $29,000.

## ACTION IN RYE MANIPULATION CASE

During the year the Department completed hearings on the complaint charging the General Foods Corp. and others with cornering and manipulating rye and rye futures contracts in 1944. The evidence on which this complaint was based was completed by the CEA before the beginning of the fiscal year. A short résumé of the case is as follows:

A complaint filed May 26, 1945, charged the General Foods Corp., Charles W. Metcalf, Daniel F. Rice, Daniel F. Rice & Co., Philip R. O'Brien, and Lawrence J. Ryan with cornering and manipulating rye and rye futures contracts on the Chicago Board of Trade in May 1944 and prior thereto. On September 10, 1946, the referee filed his recommended findings, generally substantiating the charges contained in the complaint. On December 28, 1946, oral argument of all parties was held before the judicial officer of the Department. In his decision, rendered April 28, 1947, all the respondents were found to have manipulated rye prices, and Daniel F. Rice, Daniel F. Rice & Co., Philip R. O'Brien, and Lawrence J. Ryan were found to have attempted to corner the market.

Various sanctions were imposed on the respondents. The General Foods Corp. and Metcalf, whose trading privileges had been ordered suspended for a period of 30 days, appealed to the United States Cir-

cuit Court of Appeals for the Seventh Circuit. The court stayed the order of suspension pending its final decision. Rice and Rice & Co., O'Brien, and Ryan, petitioned the judicial officer for reconsideration, and the judicial officer, in May 1947, postponed the effective date of sanctions against these respondents pending such reconsideration.

## FUNCTIONAL ACTIVITIES

### THE MARKETS SUPERVISED

The Commodity Exchange Authority supervises futures trading on commodity exchanges licensed as contract markets under the Commodity Exchange Act. During the year the contract markets under the act conducted futures trading in 18 commodities, as follows:

| *Contract Market* | *Regulated Commodity* |
|---|---|
| Chicago Board of Trade | Wheat, corn, oats, barley, lard, cotton. |
| Chicago Mercantile Exchange | Butter, eggs, potatoes. |
| Chicago Open Board of Trade | Wheat, corn, oats. |
| Duluth Board of Trade | Wheat. |
| Kansas City Board of Trade | Wheat, corn, grain sorghums, bran, shorts. |
| Los Angeles Grain Exchange | Barley (no trading in 1946–47). |
| Memphis Merchants Exchange Clearing Association | Cottonseed meal, soybean meal. |
| Milwaukee Grain Exchange | Wheat, corn, oats. |
| Minneapolis Grain Exchange | Wheat, oats, rye. |
| New Orleans Cotton Exchange | Cotton. |
| New York Cotton Exchange | Cotton. |
| New York Mercantile Exchange | Butter, eggs, potatoes. |
| New York Produce Exchange | Cottonseed oil, soybean oil. |
| Portland Grain Exchange | Wheat (no trading in 1946–47). |
| St. Louis Merchants' Exchange | Bran, shorts, middlings (no trading in 1946–47). |
| San Francisco Grain Exchange | Barley (no trading in 1946–47). |
| Seattle Grain Exchange | Wheat. |
| Wool Associates of the New York Cotton Exchange | Wool tops. |

### LICENSING OF COMMODITY BROKERS

Under the Commodity Exchange Act, commodity futures brokers operating as futures commission merchants are required to register with the Secretary of Agriculture each year. Floor brokers on the exchanges are also required to register annually.

During the year, the number of futures commission merchants registered increased to 623, compared to 584 in the previous year. The number of floor brokers registered was 642, compared with 510.

As of June 30, 1947, the registered futures commission merchants maintained a total of 1,653 principal and branch offices, and had 186 agents in offices other than those maintained by registrants. The comparable figures a year earlier were 1,548 offices maintained by registrants and 180 agents' offices. In both years, they were located in 47 States, the District of Columbia, Hawaii, Puerto Rico, and 13 foreign countries.

### PROTECTION OF TRADERS' FUNDS

The growth in the number of accounts on the books of futures commission merchants and in the volume of trading during the year in-

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creased the work of safeguarding traders' funds against misuse by brokerage agencies.

Under the act, traders' funds and equities must be "segregated" by futures commission merchants—separately accounted for, and not commingled with the funds of the commission house, nor used to extend credit to others.

To determine compliance with these requirements, the CEA made 457 segregation audits of the books and records of futures commission merchants during the fiscal year, compared to 202 during the previous year. This involved the examination of 11,362 accounts of commodity customers. The total amount of customers' funds in the hands of brokerage houses, as disclosed by the segregation audits, exceeded $100,000,000, compared to $59,000,000 before the war.

During the year no losses to commodity customers from financial failures of brokerage firms were reported. Instances of under segregation continued to occur, however. Most of these were quickly corrected when pointed out, but there were five detailed investigations arising from infractions of a more serious nature. In lieu of formal proceedings, one large firm entered into a stipulation of compliance with the Government which would subject it to serious consequences in the event of further violation of the segregation requirements.

## DISCIPLINARY PROCEEDINGS

Seven cases involving individuals, firms, and corporations charged with violations of the Commodity Exchange Act were the subject of formal proceedings during the year. One of these, involving the alleged manipulation of butter prices in violation of the criminal provisions of the act, was referred to the Department of Justice for prosecution. (See page 6.) Six other cases were dealt with by administrative proceedings under section 6 (b) of the act, as follows:

*CE–A Docket No. 34, General Foods Corp., et al.*—The actions on this complaint during the fiscal year are set forth on page 6.

*CE–A Docket No. 38, Jean and Jula Goldwurm, Ira Haupt & Co., Irving Weis, and Irving Weis & Co.*—Hearings were completed on a complaint issued May 7, 1946, charging the respondents with engaging in fictitious and "wash sales" in cotton futures contracts. The case was in the hands of the referee at the end of the year.

*CE–A Docket No. 39, Irving Weis & Co., Irving Weis and Alexander Cycleman.*—Hearings were also completed on the complaint issued May 7, 1946, charging the respondents with carrying accounts in fictitious names. The case was before the referee at the end of the year.

*CE–A Docket No. 40, Raymond G. Brown, Sr., Raymond G. Brown, Jr., Preston Brown, Harry C. Clower, Jr., and R. Bond Baker.*—A complaint issued June 10, 1946, charged these respondents with failure to report transactions in egg futures as required by the Commodity Exchange Act. The respondents waived a hearing, and on October 16, 1946, the judicial officer ordered their trading privileges denied for a period of 90 days; but, as the respondents continued to trade illegally, a supplemental order of February 11, 1947, extended the denial of trading privileges to June 14, 1947.

*CE–A Docket No. 41, Joseph M. Daniel.*—A complaint of August 14, 1946, charged the respondent with failure to keep records of trades

confirmed to a customer, and failing to account separately for the margin money received. The respondent waived a hearing and on November 12, 1946, the judicial officer issued order denying the respondent trading privileges for 60 days, at the same time suspending his registration as a futures commission merchant.

*CE–A Docket No. 42, Zenith-Godley Co., Inc., and John McClay, Jr.*—The respondents were charged with manipulating spot-butter prices on the New York Mercantile Exchange from December 18 to 24, 1946. As agents of the Dairymen's League Cooperative Association, Inc. (see p. 6) the respondents purchased large quantities of butter at the "manipulated price" of 84 cents per pound on December 18–24, 1946, the complaint charged. Hearing was completed in this case, and the matter was in the hands of the referee at the end of the year.

## INVESTIGATIONS OF TRADE PRACTICES

In a year of inflationary forces and rising prices the markets were exposed to many speculative pressures and questionable trading activities. At a time when the reestablishment of stable and dependable hedging and price-basing services was particularly important to agriculture and the general public, the necessity of apprehending and suppressing abusive and uneconomic practices was obvious.

Close watch on traders' operations and market activities was maintained through the daily checking of price data, verification of the futures and cash-commodity positions of large traders, examination of the financial statements of brokerage houses, and audits to determine compliance with segregation requirements.

In addition to such regular preventive measures as the observation of floor trading practices, consultation with exchange officials, checking brokerage accounts, and the issuance of warning letters, the CEA conducted 52 detailed investigations during the year. Some of these investigations involved individuals or corporations suspected of price manipulation, wash sales, cheating and fraud, or other malpractices. Other investigations dealt with situations of market-wide extent. In one instance, the exchange concerned took effective action to curb the practice of brokers "taking the other side" of customers' orders without proper authorization by customers. Another investigation dealt with transactions by foreigners in American futures markets.

## TRADING SUPERVISION

Effective administration of the Commodity Exchange Act requires a steady flow of basic market information. To obtain it, the Commodity Exchange Authority has developed a system of required daily and weekly reports from brokerage houses and large traders. These reports provide the basis for trading supervision. Reports are received each day from brokerage houses which provide basic data on customers' accounts. From these the Commodity Exchange Authority field offices, located at New York, Chicago, Minneapolis, Kansas City, and New Orleans, compile the total open contracts and volume of trading in each of the various markets. This provides a continuous picture of market activity for supervisory purposes.

The reports also enable the Commodity Exchange Authority to release daily the volume of trading and open contracts on the principal markets. Trade papers and newspapers publish this information each day, along with exchange price quotations, as a regular feature of market information. In addition the Commodity Exchange Authority maintains close watch on the large speculative and hedging accounts by requiring all market participants in the "large trader" group to report their trades and holdings on a daily basis. Large dealers and processors in the cash-grain and spot-cotton business report their stocks and commitments in grains and cotton.

Traders with futures holdings equal to or exceeding certain levels (such as 5,000 bales in cotton in one future on one market) are required to report daily their futures transactions and open positions. During the 1947 fiscal year the number of such large traders in reporting status averaged 265 daily compared with 207 in the preceding fiscal year.

With the resumption of large-scale activity in most of the markets during 1947, the number of broker- and trader-reports received during the year increased 52 percent, from 206,000 in the 1946 fiscal year to 314,000 in the recent year. Each month approximately 100,000 individual transactions and price items were recorded on permanent records for marketing supervision and analysis work.

## VOLUME OF TRADING

The total volume of trading in commodities under the act increased sharply over the preceding year. The dollar value of all trading nearly doubled, from $16,823,295,000 in the 1946 fiscal year to $33,546,-072,000 in 1947 (Table 1).

TABLE 1.—*Volume and estimated dollar value of futures trading, by commodities fiscal years 1945, 1946, aud 1947*

| Commodity | Volume of futures trading | | | Estimated value of futures trading | | |
|---|---|---|---|---|---|---|
| | 1945 | 1946 | 1947 | 1945 | 1946 | 1947 |
| | *Number* | *Number* | *Number* | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* |
| Wheat ---------- thousand bushels-- | 2, 425, 038 | 1, 474, 030 | 2. 322. 382 | 4, 108, 014 | 2, 648, 832 | 5, 385, 604 |
| Corn ---------- do---- | 491, 316 | 117, 600 | 2, 608, 931 | 571, 892 | 143, 825 | 4, 568, 238 |
| Oats ---------- do---- | 1, 090, 202 | 2, 438, 777 | 3, 905, 617 | 774, 043 | 1, 843, 715 | 3, 417, 415 |
| Rye ---------- do---- | 3, 978. 558 | 1, 963, 498 | 170 | 4, 881, 691 | 4, 021. 244 | 515 |
| Barley ---------- do---- | 41, 872 | 13, 140 | 2, 105 | 51, 293 | 17, 135 | 3, 661 |
| Flaxseed ---------- do---- | 1, 210 | 4 | ---------- | 3, 751 | 13 | ---------- |
| Soybeans ---------- do---- | ---------- | ---------- | ---------- | ---------- | ---------- | ---------- |
| Grain sorghums ---------- do---- | 12, 244 | 3, 934 | 1, 222 | 14, 203 | 555 | 1, 930 |
| All grains ---------- do---- | 8, 040, 440 | 6, 010, 983 | 8, 840, 427 | 10, 404. 887 | 8, 675, 319 | 13, 377, 363 |
| Cotton ---------- thousand bales-- | 37, 813 | 60, 353 | 110, 248 | 4, 117, 836 | 7, 562, 231 | 19, 006, 755 |
| Wool tops ---------- thousand pounds-- | 36, 685 | 35, 765 | 21, 245 | 49, 048 | 47, 567 | 31, 400 |
| Butter ---------- carlots-- | ---------- | 25 | 3, 561 | ---------- | 217 | 48. 277 |
| Eggs ---------- do---- | 40, 729 | 79, 357 | 135, 325 | 273, 455 | 527, 946 | 965, 084 |
| Potatoes ---------- do---- | 573 | 6, 212 | 16, 324 | 902 | 9, 812 | 25, 270 |
| Lard ---------- thousand pounds-- | 50 | 550 | 157. 730 | 7 | 76 | 41, 168 |
| Cottonseed oil ---------- do---- | 13, 200 | 780 | 94, 020 | 1, 888 | 112 | 24, 633 |
| Soybean oil ---------- do---- | ---------- | ---------- | 360 | ---------- | ---------- | 103 |
| Millfeeds ---------- tons-- | 4, 320 | ---------- | 134, 910 | 158 | ---------- | 6, 586 |
| Cottonseed meal ---------- do---- | 200 | 300 | 95, 900 | 10 | 15 | 7, 313 |
| Soybean meal ---------- do---- | 2, 400 | ---------- | 153, 900 | 125 | ---------- | 12, 120 |
| Total ---------- | ---------- | ---------- | ---------- | 14, 848, 316 | 16, 823, 295 | 33, 546, 072 |

Because of higher price levels, the increase in dollar value was larger than in the actual volume of trading. The total number of transac-

tions, purchases and sales in terms of contract units, was 6,720,000, compared with 4,294,000 in 1946.

The largest volume of trading was in cotton futures. The dollar value of the year's trading on the New York, New Orleans, and Chicago cotton markets was $19,006,755,000, or more than half the value of trading in all commodities. The volume in bales was 110,248,000, which was nearly double the 1946 figure, and larger than in any year since 1929.

Trading in grains, the largest part of which was in the second half of the fiscal year, amounted to 8,840,427,000 bushels, compared with 6,010,983,000 in 1946. The peak volume in wheat was in March 1947 when total trading on all markets amounted to 509,683,000 bushels. The largest monthly volume in any grain, however, was in corn futures in June, when 530,764,000 bushels were traded. Activity in oats, a relatively small market before the war, was larger than in any previous year.

The volume of futures trading in eggs at Chicago was the largest on record. At prevailing price levels the value of such trading aggregated nearly $1,000,000,000 during the year. Futures trading in potatoes in New York was also larger than in any previous year. After a long period of inactivity, butter futures trading in Chicago again constituted an important market, and the volume in millfeeds at Kansas City and in oilmeals at Memphis increased steadily.

TABLE 2.—*Annual average of open contracts on all contract markets, by commodities, fiscal years 1943 to 1947*

[Average of open contracts at end of each month] [1]

| Commodity | | 1943 | 1944 | 1945 | 1946 | 1947 |
|---|---|---|---|---|---|---|
| Wheat | million bushels | 67.2 | 65.5 | 59.9 | 51.4 | 38.1 |
| Corn | do | 42.7 | | 21.2 | 15.6 | 36.3 |
| Oats | do | 19.4 | 20.3 | 27.2 | 54.0 | 44.9 |
| Rye | do | 39.1 | 46.5 | 46.7 | 20.6 | .1 |
| Barley | do | .1 | 1.7 | 1.8 | 1.1 | .2 |
| Flaxseed | do | 1.2 | .3 | .2 | (2) | |
| Soybeans | do | .8 | | | | |
| Grain sorghums | do | | | .6 | .3 | .1 |
| Cotton | million bales | 1.8 | 1.6 | 1.6 | 2.6 | 3.1 |
| Wool tops | million pounds | 3.5 | 4.6 | 4.7 | 5.6 | 4.3 |
| Butter | thousand carlots | .4 | | | (3) | .2 |
| Eggs | do | .6 | .5 | 1.4 | 3.6 | 4.2 |
| Potatoes | do | .4 | .2 | .1 | .8 | 1.2 |
| Bran | thousand tons | 18.0 | | .7 | | 4.0 |
| Shorts | do | 4.6 | | | | 3.2 |
| Middlings | do | 2.0 | | | | |
| Cottonseed meal | do | 7.0 | | (4) | .1 | 7.2 |
| Soybean meal | do | 2.0 | | .5 | | 12.1 |
| Cottonseed oil | million pounds | 3.0 | .7 | 2.4 | .3 | 13.7 |
| Soybean oil | do | | | | | (5) |
| Lard | do | .6 | .1 | (5) | .4 | 12.0 |

[1] Yearly totals divided by 12, except that, for certain commodities and markets, months prior to inauguration of trading and months in which trading was suspended not included in computations.
[2] Less than 10,000 bushels.
[3] Less than 100 carlots.
[4] Less than 500 tons.
[5] Less than 50,000 pounds.

## OPEN CONTRACTS

As shown in table 2, the average of open contracts in most commodities was greater than in the previous year. While volume of trading data tend to show turn-over in the markets, the contracts remaining "open" for considerable periods furnish a better indication of market composition, and to some extent reflect hedging transactions.

Open contracts in wheat were lower because of limited activity in the wheat futures markets in the first half of the fiscal year. Wheat open contracts increased steadily in the second half. Open contracts in cotton averaged the highest since 1937–38. The most striking change shown in table 2 is the return of substantial open-contract figures in the smaller markets, such as for butter, lard, cottonseed oil, bran, and shorts, and cottonseed meal and soybean meal. After a long period of wartime inactivity, hedging transactions figured prominently in the revival of trading in most of these commodities.

### REPORTS AND BULLETINS

The CEA continued during the year to compile and issue the basic data on futures trading which are released to the press and public. The five field offices release daily statistical reports which show the volume of trading and open contracts for the various markets and commodities supervised. These reports provide basic information on the activity in thirty-odd futures markets. One new daily report was inaugurated during the year: Volume of trading and open contracts in cottonseed meal and soybean meal on the Memphis market.

The Authority also continued the publication of its weekly, monthly, and annual statistical bulletins, some of which were interrupted during the war years. The monthly bulletins, Trade in Grain Futures and Trade in Cotton Futures, were issued regularly during the year. The statistical annual, Commodity Futures Statistics, was published during the year, also Cotton Futures Statistics, 1942–45, and Wheat Futures Statistics, 1942–46.

Special reports issued during the year included: Effects on Futures Trading in Grains of Changes in Price Ceilings of May 13, 1946; Classification of Open Contracts in Egg Futures on the Chicago Mercantile Exchange as of July 31, 1946; the Activities of Large Traders in Cotton Futures During the October 1946 Price Decline; Collapse in Cotton Prices, October 1946; Hedging in Foreign Cotton in United States Futures Markets, February 1947; Classification of Open Contracts in Wheat Futures, Chicago Board of Trade, February 28, 1947; Need for Multiple Delivery Points in Grain Futures Markets, May 1947; Commitments in Corn Futures, Chicago Board of Trade, June 30, 1947.

## REVIEW OF TRADING

### GRAINS

Trading in wheat and corn futures, which had come to a standstill under price ceilings during the summer of 1946, gradually revived after price controls were removed. For several months there was more activity in corn than in wheat. Until midwinter the largest volume of grain trading continued in the oats futures market, to which a large volume of speculative trading had been attracted during the war when activity in wheat and corn was restricted under ceilings.

#### WHEAT

In the opening months of 1947 there were sharp advances in wheat prices, in connection with the mounting world demand and limited supplies. A large speculative interest was attracted to the market.

The trading volume nearly tripled from January to February, and in March amounted to 509,683,000 bushels. This was the largest monthly total since 1941.

On February 28 the CEA issued a special call for detailed reports on all accounts in wheat futures on the Chicago Board of Trade. Information from this call and from the regular reports of large traders showed that the market was composed primarily of speculative accounts, both in number and amount. An unusual feature of the market was that smaller speculators—usually on the long side—had built up a large amount of short positions, believing apparently that advancing wheat prices would not continue. The aggregate short positions of small traders at the end of January amounted to 32,800,000 bushels, or nearly three-fourths of the total short side of the market (table 3). During February and early March, however, many of these shorts were forced to cover, as prices continued to rise, while additional buying was attracted to the market by the advancing price trend. Although short commitments of small traders declined slightly in February, their long commitments increased 5,300,000 bushels.

TABLE 3.—*Wheat futures: Classification of month-end commitments of traders, all markets combined, fiscal year 1947*

[In millions of bushels]

| Year and month | Total open contracts | Small traders' commitments | | Large traders' commitments (commitments of traders subject to 200,000-bushel reporting requirement) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Total | | Speculative | | Hedging | | Spreading | |
| | | Long | Short | Long | Short | Long | Short | Long | Short | Long | Short |
| *1946* | | | | | | | | | | | |
| July | 0.2 | 0.2 | 0.2 | ------ | ------ | ------ | ------ | ------ | ------ | ------ | ------ |
| August | 6.4 | 5.0 | 2.2 | 1.4 | 4.2 | 0.2 | ------ | 0.7 | 3.7 | 0.5 | 0.5 |
| September | 9.1 | 6.2 | 4.3 | 2.9 | 4.8 | ------ | ------ | 2.6 | 4.5 | .3 | .3 |
| October | 19.5 | 8.9 | 12.4 | 10.6 | 7.1 | .5 | 0.4 | 9.2 | 5.8 | .9 | .9 |
| November | 27.0 | 11.5 | 19.7 | 15.5 | 7.3 | .8 | .6 | 13.3 | 5.3 | 1.4 | 1.4 |
| December | 35.8 | 14.4 | 25.3 | 21.4 | 10.5 | .7 | 3.6 | 18.5 | 4.7 | 2.2 | 2.2 |
| *1947* | | | | | | | | | | | |
| January | 45.6 | 16.6 | 32.8 | 29.0 | 12.8 | 1.9 | 2.9 | 22.4 | 5.2 | 4.7 | 4.7 |
| February | 49.7 | 21.9 | 32.4 | 27.8 | 17.3 | 3.0 | 1.5 | 16.0 | 7.0 | 8.8 | 8.8 |
| March | 48.6 | 24.0 | 28.2 | 24.6 | 20.4 | .8 | .4 | 16.2 | 12.4 | 7.6 | 7.6 |
| April | 52.7 | 24.2 | 33.6 | 28.5 | 19.1 | 2.8 | 1.7 | 17.0 | 8.7 | 8.7 | 8.7 |
| May | 56.3 | 24.1 | 34.3 | 32.2 | 22.0 | 3.8 | 1.1 | 16.2 | 8.7 | 12.2 | 12.2 |
| June | 70.8 | 32.1 | 39.5 | 38.7 | 31.3 | 9.6 | 2.5 | 16.0 | 15.7 | 13.1 | 13.1 |

To prevent a heavy build-up of speculative positions based on thinly margined accounts, the CEA on March 14 asked the Chicago, Minneapolis, and Kansas City markets to increase margins on speculative transactions in grains to at least 25 percent of the market price. The Kansas City and Minneapolis markets promptly increased their requirements on wheat to the requested level, and on March 18 the Chicago Board of Trade raised its rates to 60 cents per bushel on the March and May futures, and to 40 cents for subsequent futures. These increases in margins on speculative trading materially lessened the danger of a price spiral and collapse in the early spring of 1947.

During the period in which the higher margins were in effect, the rate of increase in long positions of small traders in wheat futures slowed down. The higher margin rates were not maintained, how-

ever. On May 7 the Chicago Board of Trade reduced its requirements on wheat to 30 cents per bushel except for the May future, and the Kansas City and Minneapolis exchanges also made reductions. Small traders' commitments and long positions of large speculators showed a marked increase after margins were lowered.

TABLE 4.—*Corn futures: Classification of month-end commitments of traders, all markets combined, fiscal year 1947*

[In millions of bushels]

| Year and month | Total open contracts | Small traders' commitments | | Large traders' commitments (commitments of traders subject to 200,000-bushel reporting requirement) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Total | | Speculative | | Hedging | | Spreading | |
| | | Long | Short | Long | Short | Long | Short | Long | Short | Long | Short |
| *1946* | | | | | | | | | | | |
| July | 3.8 | 2.6 | 2.7 | 1.2 | 1.1 | (1) | ------ | 1.0 | 0.9 | 0.2 | 0.2 |
| August | 9.3 | 6.9 | 6.2 | 2.4 | 3.1 | 0.9 | 0.4 | 1.3 | 2.5 | .2 | .2 |
| September | 21.6 | 13.1 | 10.8 | 8.5 | 10.8 | 2.6 | ------ | 5.2 | 10.1 | .7 | .7 |
| October | 39.3 | 19.6 | 17.5 | 19.7 | 21.8 | 6.2 | .7 | 9.7 | 17.3 | 3.8 | 3.8 |
| November | 45.8 | 24.4 | 19.3 | 21.4 | 26.5 | 5.2 | 1.7 | 8.2 | 16.8 | 8.0 | 8.0 |
| December | 49.6 | 24.6 | 21.3 | 25.0 | 28.3 | 6.6 | 2.1 | 10.1 | 17.9 | 8.3 | 8.3 |
| *1947* | | | | | | | | | | | |
| January | 38.4 | 20.5 | 19.3 | 17.9 | 19.1 | 5.1 | 1.2 | 7.6 | 12.7 | 5.2 | 5.2 |
| February | 40.5 | 22.9 | 18.1 | 17.6 | 22.4 | 3.4 | 1.6 | 8.1 | 14.7 | 6.1 | 6.1 |
| March | 36.8 | 20.4 | 19.0 | 16.4 | 17.8 | 2.7 | 2.0 | 10.4 | 12.5 | 3.3 | 3.3 |
| April | 41.9 | 20.4 | 26.6 | 21.5 | 15.3 | 2.9 | 3.1 | 14.4 | 8.0 | 4.2 | 4.2 |
| May | 49.5 | 23.8 | 34.3 | 25.7 | 15.2 | 5.9 | 2.1 | 12.4 | 5.7 | 7.4 | 7.4 |
| June | 58.1 | 31.5 | 38.4 | 26.6 | 19.7 | 7.7 | 2.4 | 8.6 | 7.0 | 10.3 | 10.3 |

1 Less than 50,000 bushels.

## CORN

During the heavy marketing season in the autumn of 1946, there was a marked revival in hedging interest and trading volume in corn futures. Between December and March, however, open contracts and commitments of both speculators and hedgers declined (table 4). Stocks of corn in commercial channels decreased during the spring, and short hedges were reduced further. In contrast, speculative interest in corn futures increased, and this activity was accelerated in late May and June when the crop outlook was impaired by wet weather at planting time. Trading volume on the Chicago Board of Trade rose from 265,183,000 bushels in April, to 346,093,000 in May, to 501,104,000 in June. The latter was the largest June volume in corn futures since 1933.

Effective June 30, the CEA made a special call for the names and addresses of the holders, and the classification (speculative or hedging) of all accounts in the Chicago corn futures market. The outstanding fact from this survey, as shown by the report issued after the close of the fiscal year, was the large proportion of speculative traders and commitments in the market. Of the total of 4,351 accounts, 3,932, or 90.4 percent, were reported as speculative. Speculative traders held 43,406,000 bushels on the long side and 38,846,000 bushels on the short, representing respectively 74.6 and 66.8 percent of the total open contracts. The remaining commitments were reported as hedges.

## COTTON

Raw cotton was not placed under price ceilings during the war; and cotton was one of the few commodities in which futures trading

continued in substantial volume. After the war the low margin rates of the cotton exchanges proved an unusual attraction to speculators. Effective April 9, 1946, the Office of Price Administration ordered sharp increases in margin rates on speculative transactions in cotton futures. With the expiration of the price control act on June 30, the exchanges made reductions to levels of 10 to 12 percent. With the 100-percent margin requirement on trading in registered securities, widespread speculative interest was attracted to cotton.

TABLE 5.—*Cotton futures: Classification of month-end commitments of traders, all markets combined, fiscal year 1947*

[In thousands of bales]

| Year and month | Total open contracts | Small traders' commitments | | Large traders' commitments (commitments of traders subject to 5,000-bale reporting requirement) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Total | | Speculative | | Hedging | | Straddling | |
| | | Long | Short | Long | Short | Long | Short | Long | Short | Long | Short |
| *1946* | | | | | | | | | | | |
| July | 3, 446 | 2, 389 | 1, 445 | 1, 057 | 2, 001 | 331 | 70 | 415 | 1, 620 | 311 | 311 |
| August | 3, 580 | 2, 371 | 1, 576 | 1, 209 | 2, 004 | 363 | 98 | 499 | 1, 559 | 347 | 347 |
| September | 3, 808 | 2, 447 | 1, 680 | 1, 361 | 2, 128 | 408 | 124 | 594 | 1, 645 | 359 | 359 |
| October | 3, 471 | 2, 087 | 1, 593 | 1, 384 | 1, 878 | 174 | 119 | 815 | 1, 364 | 395 | 395 |
| November | 3, 165 | 1, 887 | 1, 525 | 1, 278 | 1, 640 | 125 | 75 | 801 | 1, 213 | 352 | 352 |
| December | 3, 300 | 1, 904 | 1, 566 | 1, 396 | 1, 734 | 139 | 72 | 864 | 1, 269 | 393 | 393 |
| *1947* | | | | | | | | | | | |
| January | 3, 219 | 1, 642 | 1, 483 | 1, 577 | 1, 736 | 137 | 65 | 943 | 1, 174 | 497 | 497 |
| February | 3, 119 | 1, 635 | 1, 588 | 1, 484 | 1, 531 | 155 | 56 | 866 | 1, 012 | 463 | 463 |
| March | 2, 921 | 1, 625 | 1, 552 | 1, 296 | 1, 369 | 144 | 64 | 797 | 950 | 355 | 355 |
| April | 2, 659 | 1, 471 | 1, 544 | 1, 188 | 1, 115 | 133 | 45 | 737 | 752 | 318 | 318 |
| May | 2, 424 | 1, 296 | 1, 467 | 1, 128 | 957 | 141 | 44 | 639 | 565 | 348 | 348 |
| June | 2, 127 | 1, 169 | 1, 310 | 958 | 817 | 73 | 28 | 643 | 547 | 242 | 242 |

The speculative boom and price bulge in cotton futures in the summer and fall of 1946, and the price collapse in October, are described in an earlier section of this report (see p. 2).

After the October collapse, the level of open contracts in cotton declined through the remainder of the fiscal year (table 5.) The speculative positions of large traders dropped markedly. However, cotton futures trading continued in large volume with a greater dollar value than in any other commodity. It was generally foreseen that the carry-over of cotton into the 1947–48 crop year would be the smallest in many years. In the spring and early summer, as the old crop year drew to a close and cotton stocks decreased, prices advanced markedly, with heavy premiums on the near cotton futures. As merchant and mill stocks declined, there was a corresponding reduction in the amount of short hedging commitments in the futures markets. Meanwhile, there were substantial long hedging commitments to protect forward sales. This shift from short to long hedging positions toward the close of the fiscal year is reflected in table 5.

## EGGS

Futures transactions in eggs during the year were the largest in the 27 years of trading on the Chicago Mercantile Exchange. The volume was 135,000 carlots, compared with 79,000 in the 1946 fiscal year. Trading was about three times the level of the prewar years.

On July 31, 1946, when the market was at peak activity, the CEA made a special call, checking on all egg futures accounts in the Chicago market. The picture generally was that of a typical futures market performing the customary risk-bearing and hedging functions. There were 3,200 accounts in the market, of which nearly 300 represented the hedges of dealers and processors holding the bulk of the short side, and about 2,900 speculators carrying most of the long commitments.

This large market developed in the spring and summer of 1946 as a record-size egg production came into commercial channels. Dealers and processors thereupon moved large surplus stocks into storage, protecting their inventories against price risks with short hedges in futures. The pressure of these short sales was absorbed by many small speculators who came in on the other side of the market, purchasing egg futures in large quantities. The buying of egg futures by the public absorbed the pressure of large supplies, and contributed to prevent a market glut which had been feared earlier. Prices to producers remained above the support levels then in effect.

Activity in egg futures slackened after the peak of the 1946 storage season. A substantial volume of speculative transactions continued through the first half of 1947, but the hedging facilities of the market were used less extensively. On June 30, 1947, eggs in commercial channels were less than half the level of the previous year, and hedging commitments in the futures market were correspondingly smaller.

## BUTTER

The butter futures market conducted by the Chicago Mercantile Exchange attracted a substantial volume of business during the last half of the fiscal year, after a period of inactivity since 1942. The volume, although small at first, increased steadily in the spring and early summer as storage stocks of butter were built up at principal markets and hedged in futures. Open contracts at the end of the year consisted primarily of hedging commitments.

## FATS AND OILS

The futures markets for lard, cottonseed oil, and soybean oil, all dormant on July 1, 1946, resumed activity during the course of the year. As price ceilings were removed, and the tight wartime supply situation eased, suppliers of cash lard and cottonseed oil began hedging in futures against price risks.

Beginning in November 1946, trading in lard on the Chicago Board of Trade increased steadily, and by June 1947 the volume of trading was approximately at prewar levels. As supplies of cash lard in commercial channels built up sharply in the first half of 1947, open contracts in lard futures increased correspondingly. The make-up of trading was typical of adequate-supply markets. Small traders, predominantly speculators, held the bulk of the long side of the market, with most of the other side consisting of short hedges of merchants and processors seeking price protection on inventories of cash lard.

Trading in cottonseed oil on the New York Produce Exchange was light until the spring and summer of 1947, when transactions increased substantially. The market was composed largely of hedging accounts, both on the long and short sides. There were only scattered trades in soybean oil during the year.

## WOOL TOPS

The volume of trading in wool tops on the futures market conducted by the Wool Associates of the New York Cotton Exchange declined further during the year, amounting to 21,245,000 pounds, compared with 35,765,000 in the previous year. The month-end average of open contracts also decreased, but in smaller degree, from 5,589,000 pounds in 1946 to 4,294,000 in 1947. Throughout the year more than half the short side of the market consisted of hedges of large traders, those holding positions of 125,000 pounds or more in one future. Large speculators were long at the end of every month during the year, with no short positions. Small traders were also preponderantly long.

The hedging interest in the wool-top market was restricted by basic supply conditions and the production situation in the top-making industry. A large backlog of demand for quality wool tops, used in the production of worsteds for civilian use, accumulated during the war and continued into the postwar period. Prices of spot tops advanced much above their prewar relationship to raw wool, and the spread widened during the 1947 fiscal year. With demand for tops in excess of production, and prices of wool tops rising, the use of the wool-top market for hedging purposes by dealers and processors was less than normal.

## MILLFEEDS AND OILMEALS

An approximately normal volume of futures trading in millfeeds was resumed on the Kansas City Board of Trade in the months following the removal of price controls. Trading in bran was more active than in shorts, as is customary. Total open contracts in bran at the end of the year, amounting to 10,590 tons, consisted mainly of hedging commitments of large traders. In millfeeds, as in other commodities still in heavy demand, long hedging commitments, reflecting the procurement activity of merchants and dealers, figured more prominently in the market than short hedges.

Futures trading in soybean meal on the Memphis Merchants Exchange Clearing Association amounted to 153,900 tons, and in cottonseed meal 95,900 tons. While these totals were much below prewar levels, open contracts in soybean meal increased fairly steadily during the second half of the year, with a substantial hedging interest in the market. The smaller interest in cottonseed meal was attributed to the limited supplies in commercial channels.

U. S. GOVERNMENT PRINTING OFFICE: 1947

# Report of the Administrator

## of the

# Commodity Exchange Authority

## 1948



UNITED STATES DEPARTMENT OF AGRICULTURE
**Commodity Exchange Authority**

# REPORT OF THE ADMINISTRATOR OF THE COMMODITY EXCHANGE AUTHORITY, 1948

UNITED STATES DEPARTMENT OF AGRICULTURE,
COMMODITY EXCHANGE AUTHORITY,
*Washington, D. C., October 15, 1948.*

HON. CHARLES F. BRANNAN,
*Secretary of Agriculture.*

DEAR MR. SECRETARY: I submit herewith a report of the work of the Commodity Exchange Authority for the fiscal year ended June 30, 1948.

Sincerely yours,

J. M. MEHL, *Administrator.*

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## MARKET REGULATION IN 1947–48

Although the requirements for enforcement of the Commodity Exchange Act have been greater during the past year than at any time in the 25-year history of Federal regulation of futures trading, the Commodity Exchange Authority operated on an appropriation that was smaller than before the war and with a personnel force reduced to less than one-half the prewar level.

Total personnel of the Commodity Exchange Authority in 1948, including the Washington and 5 field offices, was 110 persons, compared to 239 in the prewar year 1939. Funds available for the enforcement of the act amounted to $530,000 in 1948, compared to $635,000 in 1939.

During the year the dollar value of futures trading under CEA regulation was by far the largest on record. It greatly exceeded the

value of all stocks and bonds traded on the stock exchanges. The number of large commodity traders reporting daily to the CEA was at the highest level in 10 years; the volume of customers' funds under CEA-segregation requirements was more than double the prewar level; and the investigative staff of the agency was confronted with numerous and widespread violations of the law and the regulations.

Under these conditions the clear responsibility of the CEA was to so distribute its efforts that the public interest would be protected as adequately as possible under a program of necessarily curtailed enforcement.

To detect conditions which might warn of excessive speculation and impending disorderly markets, spot-check surveys of the accounts of representative brokerage houses were substituted in some instances for more comprehensive examinations of all accounts in a market. Such a spot check was made of accounts on the Chicago Board of Trade during the February price break. In other instances full-scale surveys were made, covering all accounts in selected commodities as of specified dates. An abbreviated audit procedure was adopted to enable CEA accountants to increase the frequency of their examinations of brokerage house records, for the purpose of safeguarding customers' funds held by brokers.

## CONTRACT MARKETS REGULATED

The Commodity Exchange Authority supervises futures trading on commodity exchanges licensed as contract markets under the Commodity Exchange Act. During the year the contract markets under the act conducted futures trading in 19 commodities, as follows:

| *Markets* | *Regulated commodities* [1] |
|---|---|
| Chicago Board of Trade | Wheat, corn, oats, barley, soybeans, lard, cotton. |
| Chicago Mercantile Exchange | Butter, eggs, potatoes. |
| Chicago Open Board of Trade | Wheat, corn, oats. |
| Duluth Board of Trade | (No futures trading in 1947–48.) |
| Kansas City Board of Trade | Wheat, corn, grain sorghums, bran, shorts. |
| Los Angeles Grain Exchange | (No futures trading in 1947–48.) |
| Memphis Merchants Exchange Clearing Association | Cottonseed meal, soybean meal. |
| Milwaukee Grain Exchange | Wheat, corn, oats. |
| Minneapolis Grain Exchange | Wheat, oats, rye. |
| New Orleans Cotton Exchange | Cotton. |
| New York Cotton Exchange | Do. |
| New York Mercantile Exchange | Butter, eggs, potatoes. |
| New York Produce Exchange | Cottonseed oil, soybean oil. |
| Portland Grain Exchange | (No futures trading in 1947–48.) |
| St. Louis Merchants' Exchange | Do. |
| San Francisco Grain Exchange | Do. |
| Seattle Grain Exchange | Wheat. |
| Wool Associates of the New York Cotton Exchange | Wool tops. |

[1] Commodities in which futures trading is subject to regulation under the Commodity Exchange Act. The act applies to: wheat, cotton, corn, oats, rye, barley, flaxseed, grain sorghums, millfeeds, rice, butter, eggs, Irish potatoes, wool tops, fats and oils, cottonseed, cottonseed meal, peanuts, soybeans, and soybean meal.

## REGISTRATION OF COMMODITY BROKERS

Commodity brokers accepting orders for the purchase and sale of futures contracts on or subject to the rules of a contract market are required to register as futures commission merchants each year. Floor brokers on the exchanges also register annually.

There were 659 futures commission merchants registered during the year, compared with 623 during the previous year. The number of floor brokers registered was 734, compared with 642 in 1947. As of June 30, 1948, registered futures commission merchants maintained a total of 1,707 principal and branch offices, and had agents in 190 offices other than their own engaged in soliciting or accepting orders in commodity futures. The comparable figures a year earlier were 1,653 offices maintained by registrants and 186 agents' offices. These offices are located in 47 States, the District of Columbia, Hawaii, Puerto Rico, and 14 foreign countries.

## SAFEGUARDING CUSTOMERS' FUNDS

The Commodity Exchange Act requires that customers' funds deposited with brokers, and equities accruing to customers, in connection with commodity futures transactions be segregated and not commingled with the funds of the futures commission merchant nor used to extend credit to others. This requirement not only safeguards the funds of the public held by commodity brokers but it also tends to reduce undesirable speculative activity by preventing the use of such funds by brokers to finance their own speculative ventures or speculative activities of favored customers.

The CEA made 621 segregation audits of futures commission merchants during the year to safeguard trading funds of the public, as required. This compared with 457 such audits in the preceding year. The audits in 1947–48 involved the examination of brokers' records covering 26,165 customers' accounts, compared with 11,362 in 1946–47. The amount of money and equities in the accounts examined in 1947–48 was $139,234,712, which was 169 percent above the $51,706,821 in the accounts examined in the preceding year.

Although the scope of the individual audit during the year was not as extensive as formerly, there was no instance of loss of customers' funds through brokerage-house failure. In earlier years, before the CEA segregation audit program was initiated, price declines of a drastic character such as occurred in February 1948 had, in some instances, resulted in heavy losses to customers through failure of brokerage houses or mishandling of customers' funds.

## INVESTIGATIONS

With continuation of a large volume of speculative trading, and an intense public interest in the futures markets, there was a recurrence of sharp practices in the commodity futures markets. Under the necessity of operating on a curtailed basis, the Commodity Exchange Authority was forced to confine its investigations to those cases which appeared to be the most flagrant. The investigations

resulted in the institution of criminal proceedings, the filing of a number of complaints looking toward suspension or revocation of registrations of futures commission merchants and floor brokers, and the denial of trading privileges.

An examination was undertaken of all trades over a short period on the two major cotton exchanges. This disclosed the reappearance of a number of undesirable and abusive practices, which had been substantially reduced prior to the war under the more adequate enforcement program then in effect. It has been impossible to carry this type of investigation into the other contract markets supervised by the Commodity Exchange Authority. It is planned, however, to call to the attention of the governing officials of all markets the situation which was discovered on the two which were investigated, and to emphasize the necessity of remedial action on the part of the markets themselves.

Investigations completed during the year covered such matters as outright fraud and confidence games, manipulation and attempted manipulation of prices, concealment of trading activities through the use of fictitious names, evasion of the reporting requirements, and "wash" and fictitious trades made for a variety of purposes, including avoidance of income tax.

## COMPLIANCE ACTIONS

Persons violating the Commodity Exchange Act may be denied trading privileges on contract markets. The Federal registration of brokers who violate provisions of the act may be suspended or revoked, thereby terminating their privilege of doing business on the exchanges. For violation of the criminal provisions of the act, fines and imprisonment may be imposed by the courts.

The following is a brief review of some of the cases in which there were developments during the year:

### CE–A DOCKETS

CE–A Docket No. 34. *In re General Foods Corp., Charles W. Metcalf, Daniel F. Rice, Daniel F. Rice & Co., Philip R. O'Brien, and Lawrence J. Ryan.*—These respondents were charged in an administrative proceeding instituted in 1945 with cornering and manipulating the price of rye and rye futures on the Chicago Board of Trade. The judicial officer of the Department ordered the imposition of various sanctions upon the respondents. The judicial officer's order, however, was stayed by the United States Circuit Court of Appeals at Chicago, pending review. The case was pending at the close of the year.

CE–A Docket No. 38. *In re Jean and Jula Goldwurm, Ira Haupt & Co., Irving Weis, and Irving Weis & Co.*—The respondents were charged with engaging in fictitious and "wash" sales in cotton futures on the New York Cotton Exchange. On April 21, 1948, the judicial officer ordered the registrations of Haupt & Co., Weis, and Weis & Co. suspended for 10 days, and the denial of trading privileges to Jean and Jula Goldwurm for the same period, such sanctions to be held in

abeyance for 2 years, conditioned upon respondents' compliance with the act.

CE–A Docket No. 39. *In re Irving Weis & Co., Irving Weis, and Alexander Cycleman.*—Respondents were found to have knowingly carried accounts under fictitious names for the purpose of concealing from the CEA the trading operations of the holder of the accounts. On March 5, 1948, respondents' trading privileges on contract markets were ordered suspended for 10 days. The order of suspension was stayed on March 24 by the judicial officer of the Department, pending a review of the case by the United States Circuit Court of Appeals for the Second Circuit, to which the respondents had appealed.

CE–A Docket No. 42. *In re Zenith-Godley Co., Inc., and John McClay, Jr.*—Respondents were found to have manipulated spot-butter prices on the New York Mercantile Exchange. The judicial officer suspended their trading privileges as of September 3, 1947, the suspension to be held in abeyance for a 2-year period, conditioned upon compliance with the act by the respondents.

CE–A Docket No. 43. *In re Charles Vojtek.*—For deceiving and defrauding his customers in connection with futures transactions, the trading privileges of this broker were indefinitely suspended, as of May 26, 1948. The respondent also received a suspended 5-year prison sentence for violations of criminal provisions of the Commodity Exchange Act and other Federal statutes (see p. —).

CE–A Docket No. 44. *In re Thomas Jordan, et al.*—On February 12, 1948, the respondents were charged with executing wash and fictitious sales on the New Orleans Cotton Exchange in violation of the act. On May 5, 1948, the judicial officer suspended the respondents' trading privileges on contract markets for 10 days, the suspension to be held in abeyance for 2 years, conditioned upon respondents' compliance with the act.

CE–A Docket No. 45. *In re Garnac Grain Co., et al.*—A complaint and notice of hearing, issued March 24, 1948, charged the respondents with failure to register as a futures commission merchant, failure to file required reports, and bucketing a customer's orders. A referee was appointed to conduct the administrative hearing and the case was pending at the close of the year.

CE–A Docket No. 46. *In re J. M. Leak.*—For failure to register as a futures commission merchant, and for making willfully false representations to customers, a complaint was issued against the respondent on April 12, 1948. On July 13, the judicial officer directed all contract markets to refuse respondent trading privileges for a period of 60 days.

CE–A Docket No. 47. *In re Ralph W. Moore.*—On May 27, 1948, the respondent was charged with failure to report speculative transactions and open contracts in grain and lard futures, attempting to manipulate lard prices, and causing to be delivered for transmittal in interstate commerce false reports tending to affect the price of lard in interstate commerce, in violation of the Commodity Exchange Act. A referee was appointed to conduct the administrative hearing, and the case was pending at the close of the year.

## CRIMINAL CASES

On September 18, 1947, a criminal information was filed in the United States District Court, Chicago, Ill., charging Charles Vojtek, Chicago broker, with making false reports to customers, bucketing customers' orders, and defrauding them in violation of the Commodity Exchange Act. On November 14, 1947, the court sentenced the defendant to a 5-year term, suspended on condition that Vojtek make restitution of funds to defrauded customers, and not trade on commodity markets during the 5-year probationary period.

For selling "bids" and "offers" in violation of the act, and for other fraudulent activities, John Weber of Fort Worth, Tex., on March 12, 1948, was ordered recommitted to prison for 5 years by the United States District Court, Fort Worth, Tex.

Criminal charges were instituted in January 1948 against James J. McCloud of Chicago, Ill., alleging the operation of a bucket shop. McCloud was apprehended in June 1948 and imprisoned in Newark, N. J., pending arraignment on charges of violation of the Commodity Exchange Act and the Securities Exchange Act. Disposition of the case was pending at the close of the year.

## SUPERVISION OF TRADING

Through its field offices the CEA maintains close supervision of futures trading on the contract markets. A basic means of maintaining market supervision is the system of required reports from exchange members and large traders. Through these reports the CEA is kept continuously informed of the market activities of large speculators, merchants, and processors. It is thus enabled to give special attention to the operation of large speculators in grains and cotton to see that their transactions and commitments are kept below the speculative limits applying to these commodities.

In addition to the daily reports covering transactions and positions of large traders, exchange clearing members report daily the volume of trading and open contracts in each future of each commodity. These latter reports are also used by the CEA to provide the public with information on total volume and open contracts in the various futures markets. Reports received by the CEA during the year aggregated 475,000, an increase of 51 percent over the preceding year.

Of the total received in 1948, some 229,000, or nearly one-half, were daily reports from exchange clearing members. From these the CEA field offices tabulate and issue for daily publication the volume of trading and open contracts in the various markets. See also page 8.

The average number of large-trader accounts reporting daily to the CEA during the year was 568, or more than double the average of 265 in the previous fiscal year. On an average, 58 new traders came into reporting status each month during the year, compared with an average of 21 per month in 1947.

Analysis of the total open contracts and the reports of large traders usually indicates the approximate composition of a futures market, but there are times when more comprehensive data are needed for special regulatory purposes. Effective regulation may at times require detailed information on small traders' positions. To obtain

such information, the CEA from time to time makes special "calls," that is, asks commission houses for reports on all, or a large part, of the accounts in the market. Seven such calls were made during the year.

One call covered open contracts on September 17, and trading on September 18, 19, 20, 1947, for all accounts in wheat futures on the Chicago Board of Trade. There were also calls for information on all accounts in grain futures as of September 30, 1947, on the Kansas City Board of Trade, the Minneapolis Grain Exchange, and the Chicago Open Board of Trade. A spot check survey of wheat and corn futures accounts on the Chicago Board of Trade was made to provide additional information on the price break in those commodities in February 1948. The CEA also made an extensive special survey of trading in cotton futures on the New York and New Orleans Exchanges, as of May 17–22, 1948.

## HOLDING OPEN OF COMPLETED TRADES PROHIBITED

During the year the Commodity Exchange Authority found an increasing number of traders maintaining offsetting long and short positions in the same future of the same commodity on the same market for the apparent purpose of deception. In some instances such offsetting positions were established by making a sale or a purchase against a position assumed at some earlier date in which a profit or a loss had been realized. When making the subsequent offsetting purchase or sale the trader would instruct his broker not to apply it against the previous position but instead to hold both sides of the transaction open on the broker's records. In other instances offsetting positions were created by means of a simultaneous purchase and sale made at the same price and with no change of ownership. The latter type of transaction is, of course, fictitious and is prohibited by the Commodity Exchange Act.

Such offsetting positions, and the fictitious transactions which were frequently found to accompany them, were used for a variety of deceptive purposes, including the creation of a false impression of market activity, the avoidance of delivery in fulfillment of futures contracts, the deceiving of customers as to the true condition of their accounts, and, perhaps most frequently of all, the reduction or avoidance of income-tax liability.

Instances have been discovered where persons operated speculative accounts for others on a discretionary basis under power of attorney and assumed offsetting positions in the market; they subsequently reported to the customer the side of the transaction which showed a profit, concealing from the customer, however, the fact that the other side of the transaction was being held open with an accrued loss. In other instances where the purpose was to conceal profits, particularly from tax authorities, the reverse of the process was employed with the loss trade being closed out and reported and the offsetting trade held open.

To safeguard the markets against this type of transaction, a new regulation (sec. 1.46) was promulgated, effective June 8, 1948, which prohibits the holding open of both sides of a trader's offsetting positions

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in the same future after the trades have been completed. Futures commission merchants are required to apply purchases and sales against previously held speculative long or short positions, and to promptly furnish the customer with a purchase-and-sale statement showing the financial result of the transaction. The closing out of such offsetting positions is required regardless of whether the transaction is for the purpose of affecting income-tax liability, creating a false impression of market activity, or for any other purpose.

## CONFIDENTIAL TRADE REPORTS TO CEA

To conduct its regulatory work, the CEA for many years has received confidential information respecting traders in commodity futures, their names, trades, and market positions. Regular reports from "large" traders, and special surveys covering all traders in a market, provide basic information essential for surveillance of market operations and for the enforcement of limits on speculative trading in grains and cotton.

For more than 25 years the Commodity Exchange Authority, pursuant to provisions of the statute, held in confidence all reports respecting identities of traders and their market operations. On two occasions—1929 and 1933—the Secretary of Agriculture, in response to Senate Resolutions calling for names of traders, declined to disclose such information.

In December 1947, the Secretary was requested, under subpena, to furnish the Senate Committee on Appropriations with the names and transactions of commodity traders in the possession of the Department. By reason, however, of the provision of the Commodity Exchange Act prohibiting the disclosure of such information, the Congress adopted a joint resolution (Public Law 392, approved December 19, 1947), amending the law so as to direct the production and publication of such information at the request of a congressional committee.

In compliance with the subpena and the amendment to the statute, listings of about 35,000 items, showing names of traders and their market operations, were prepared from CEA records, transmitted to the Senate Committee on Appropriations, and published during December 1947 and January 1948.

## REPORTS AND PUBLICATIONS

Through its 5 field offices, the CEA continued to provide basic data on futures by means of daily reports on the volume of trading and open contracts for the following markets:

Wheat, corn, oats, soybeans, barley, lard, and cotton on the Chicago Board of Trade; butter, eggs, and potatoes on the Chicago Mercantile Exchange; wheat, oats and rye on the Minneapolis Grain Exchange; wheat, corn, grain sorghums, and bran and shorts on the Kansas City Board of Trade; cotton on the New York Cotton Exchange; wool tops on the market conducted by the Wool Associates of the New York Cotton Exchange; butter, eggs, and potatoes on the New York Mercantile Exchange; cottonseed oil and soybean oil on the New York Produce Exchange; cotton on the New Orleans

Cotton Exchange; and cottonseed meal and soybean meal on the Memphis Merchants Exchange Clearing Association.

The following statistical periodicals and bulletins were issued during the year: *weekly reports*—Unfixed Cotton Call Sales and Purchases; Stocks of Grain in Deliverable Position in Federally Licensed Warehouses at Chicago; *monthly reports*—Trade in Grain Futures; Trade in Cotton Futures; Commitments of Large Traders in Cotton Futures; *annual reports*—Commodity Futures Statistics, 1946–47; Corn Futures Statistics, 1942–47.

Special reports and publications included: Twenty-five Years of Futures Trading under Federal Act; Commitments in Corn Futures, Chicago Board of Trade, June 30, 1947; Futures Trading and Income Tax; Delivery Notices in Cotton Futures Markets; and Statement on Regulation of Commodity Futures Markets, before the Joint Committee on the Economic Report, November 24, 1947.

## VOLUME OF TRADING

The volume of futures trading in most commodities under the Commodity Exchange Act registered substantial increases during the fiscal year. Activity was greater in 15 of the 19 commodities in which trading was conducted. In lard, potatoes, and bran and shorts the volume was the largest on CEA records. In barley, flaxseed, and middlings, there was little or no futures activity, although in previous years there were substantial markets for these commodities.

In all grains combined, the total volume of trading was 12,297,581,000 bushels, compared with 8,840,427,000 bushels in 1947. The 1948 volume was the largest since 1938. The Chicago Board of Trade accounted for 84.8 percent of the 1948 grain futures trading, the Kansas City Board of Trade 6.7 percent, the Minneapolis Grain Exchange 5.8 percent, and the other exchanges 2.7 percent.

Futures trading in wheat was the largest for any of the grains for the first time since 1943. Trading in corn continued to comprise the second largest grain futures market; and oats ranked third. These are the customary relationships which existed for many years before World War II.

Cotton futures trading, aggregating 110,583,000 bales, was slightly larger than in 1947, and larger also than in any year since 1929. Of the total cotton futures trading during the year, 57.3 percent was on the New York Cotton Exchange, 40.3 on the New Orleans Cotton Exchange, and 2.4 percent on the Chicago Board of Trade. Activity at New Orleans increased slightly during the year, whereas the volume at New York and Chicago was somewhat smaller.

In dollar value, the volume of trading on the regulated futures markets was the largest on record. It is estimated at nearly 50 billion dollars for the year, compared with 33 billions in the previous year. In some commodities, such as wheat, the increase in dollar-value of trading was larger than the increase in bushels traded, indicating the effect of the rising price level. On the other hand, in commodities for which the average price level for the year was not greatly changed dollar-value changes reflected more closely variations in trading activity.

There was also a sharp increase in the number of transactions during the year. On the 18 contract markets, the total number of purchases and sales in terms of contract urits is estimated at 8,863,000, compared with 6,720,000 in 1946–47. The figure for 1947–48 was the largest in 10 years.

TABLE 1.—*Volume and estimated dollar value of futures trading, by commodities, fiscal years 1946, 1947, and 1948*

| Commodity | Volume of futures trading | | |
|---|---|---|---|
| | 1946 | 1947 | 1948 |
| Wheat__________thousand bushels__ | 1, 474, 030 | 2, 322, 382 | 5, 768, 086 |
| Corn__________do____ | 117, 600 | 2, 608, 931 | 3, 798, 763 |
| Oats__________do____ | 2, 438, 777 | 3, 905, 617 | 2, 668, 554 |
| Rye__________do____ | 1, 963, 498 | 170 | 21, 141 |
| Barley__________do____ | 13, 140 | 2, 105 | 15 |
| Flaxseed__________do____ | 4 | ____________ | ____________ |
| Soybeans__________do____ | ____________ | ____________ | 40, 162 |
| Grain sorghums__________do____ | 3, 934 | 1, 222 | 860 |
| All grains__________do____ | 6, 010, 983 | 8, 840, 427 | 12, 297, 581 |
| Cotton__________thousand bales__ | 60, 353 | 110, 248 | 110, 583 |
| Wool tops________thousand pounds__ | 35, 765 | 21, 245 | 31, 650 |
| Butter__________carlots__ | 25 | 3, 561 | 22, 066 |
| Eggs__________do____ | 79, 357 | 135, 325 | 125, 020 |
| Potatoes__________do____ | 6, 212 | 16, 324 | 27, 582 |
| Lard__________thousand pounds__ | 550 | 157, 730 | 2, 938, 880 |
| Cottonseed oil__________do____ | 780 | 94, 020 | 1, 476, 900 |
| Soybean oil__________do____ | ____________ | 360 | 900 |
| Millfeeds__________tons__ | ____________ | 134, 910 | 818, 850 |
| Cottonseed meal__________do____ | 300 | 95, 900 | 245, 700 |
| Soybean meal__________do____ | ____________ | 153, 900 | 412, 200 |
| Total__________ | ____________ | ____________ | ____________ |

TABLE 1.—*Volume and estimated dollar value of futures trading, by commodities, fiscal years 1946, 1947, and 1948*—Continued

| Commodity | Estimated value of futures trading | | |
|---|---|---|---|
| | 1946 | 1947 | 1948 |
| | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* |
| Wheat | 2, 648, 832 | 5, 385, 604 | 14, 979, 719 |
| Corn | 143, 825 | 4, 568, 238 | 9, 166, 415 |
| Oats | 1, 843, 715 | 3, 417, 415 | 3, 191, 591 |
| Rye | 4, 021, 244 | 515 | 54, 967 |
| Barley | 17, 135 | 3, 661 | 34 |
| Flaxseed | 13 | | |
| Soybeans | | | 147, 796 |
| Grain sorghums | 555 | 1, 930 | 1, 820 |
| All grains | 8, 675, 319 | 13, 377, 363 | 27, 542, 342 |
| Cotton | 7, 562, 231 | 19, 006, 755 | 19, 280, 146 |
| Wool tops | 47, 567 | 31, 400 | 57, 603 |
| Butter | 217 | 48, 277 | 333, 426 |
| Eggs | 527, 946 | 965, 084 | 1, 008, 161 |
| Potatoes | 9, 812 | 25, 270 | 44, 680 |
| Lard | 76 | 41, 168 | 670, 065 |
| Cottonseed oil | 112 | 24, 633 | 403, 194 |
| Soybean oil | | 103 | 252 |
| Millfeeds | | 6, 586 | 52, 529 |
| Cottonseed meal | 15 | 7, 313 | 21, 256 |
| Soybean meal | | 12, 120 | 38, 499 |
| Total | 16, 823, 295 | 33, 546, 072 | 49, 452, 153 |

## OPEN CONTRACTS

The average level of open contracts in most commodities increased, as compared with the previous year. This was particularly true of wheat and corn, cottonseed oil, lard, millfeeds, cottonseed meal, and soybean meal. In many commodities the rising level of open futures contracts reflected an increasing use of the markets for hedging purposes. In some commodities the increase in open contracts was due in part to mass speculation in futures.

Among the grains, the average of open contracts in wheat on all markets increased from 38 million bushels in 1947 to 94 million bushels in 1948. Average open contracts in corn were larger than in the previous year. The sharp increase in corn open contracts reflects in some degree the speculative froth in the market in the summer and fall of 1947. Stocks of corn in commercial channels were below average during the year.

Open contracts in cotton receded from the record levels of the previous year, notwithstanding the continued large volume of speculative trading. However, the hedging interest in cotton—always large—remained at approximately the same levels as in the preceding year.

TABLE 2.—*Annual average of open contracts on all contract markets, by commodities, fiscal years 1944–48*

[Average of open contracts at end of each month] [1]

| Commodity | 1944 | 1945 | 1946 | 1947 | 1948 |
|---|---|---|---|---|---|
| Wheat million bushels | 65. 5 | 59. 9 | 51. 4 | 38. 1 | 94. 0 |
| Corn do | ------ | 21. 2 | 15. 6 | 36. 3 | 53. 0 |
| Oats do | 20. 3 | 27. 2 | 54. 0 | 44. 9 | 45. 0 |
| Rye do | 46. 5 | 46. 7 | 20. 6 | . 1 | . 8 |
| Barley do | 1. 7 | 1. 8 | 1. 1 | . 2 | (2) |
| Flaxseed do | . 3 | . 2 | . 1 | ------ | ------ |
| Soybeans do | ------ | ------ | ------ | ------ | 1. 8 |
| Grain sorghums do | ------ | . 6 | . 3 | . 1 | (2) |
| Cotton million bales | 1. 6 | 1. 6 | 2. 6 | 3. 1 | 2. 7 |
| Wool tops million pounds | 4. 6 | 4. 7 | 5. 6 | 4. 3 | 4. 0 |
| Butter thousand carlots | ------ | ------ | (3) | . 2 | . 7 |
| Eggs do | . 5 | 1. 4 | 3. 6 | 4. 2 | 2. 7 |
| Potatoes do | . 2 | . 1 | . 8 | 1. 2 | 1. 6 |
| Lard million pounds | . 1 | (4) | . 4 | 12. 0 | 75. 6 |
| Cottonseed oil do | . 7 | 2. 4 | . 3 | 13. 7 | 53. 2 |
| Soybean oil do | ------ | ------ | ------ | (4) | . 1 |
| Bran thousand tons | ------ | . 7 | ------ | 4. 0 | 28. 6 |
| Shorts do | ------ | ------ | ------ | 3. 2 | 17. 0 |
| Cottonseed meal do | ------ | . 1 | . 1 | 7. 2 | 19. 7 |
| Soybean meal do | ------ | . 5 | ------ | 12. 1 | 25. 8 |

[1] Yearly totals divided by 12, except that, for certain commodities and markets, months prior to inauguration of trading and months in which trading was suspended not included in computations.
[2] Less than 50,000 bushels.
[3] Less than 50 carlots.
[4] Less than 50,000 pounds.

## COMMODITY REVIEW

### Wheat

Despite the record wheat crop that moved to market in the summer and fall of 1947, there was a continuation and accentuation of the bullish speculative interest in wheat futures which continued from the spring months. In May the three principal grain exchanges sharply reduced margin requirements on speculative trades. Wheat speculators greatly increased their long positions and in August and September there was a sharp acceleration of speculative activity.

To restrain this speculative activity, the CEA on September 15 asked the principal grain exchanges to raise margin requirements on speculative transactions in grain to not less than 33⅓ percent. Authority over margins rests with the exchanges under the present act, but it is the belief of the Department that adequate margins are the only means to curb the mass trading of small speculators. The Commodity Exchange Commission, by direction of the President, repeated the request for higher margins on October 6, and the exchanges complied. The unusual speculative activity in grain futures gradually

subsided. Underlying the speculative interest in wheat futures was the bullish speculative activity in corn futures accompanying the worsening outlook for the crop in the summer of 1947 and the prospective need for large-scale exports of wheat to Europe.

Stocks of wheat in commercial channels increased markedly in the summer as the crop moved to market and grain merchants and processors made large sales of futures as hedges against their purchases of new-crop wheat. The resultant increase in short hedging positions was offset on the long side by speculative purchases. Aggressive speculative purchasing in the face of hedging pressure at the time of the peak crop movement sustained the price rise in the summer. From July 1 to September 15, the December future on the Chicago Board of Trade increased from \$2.18⅜ to \$2.82⅝ per bushel.

In such situations an unstable type of speculative interest is attracted to the sensitive futures markets. If, as prices move upward, the cash margin required to buy futures is not appropriately increased, many poorly financed traders may rush into the market under the impression that they are getting a "bargain." Such hasty purchases may well generate further price increases which the market is unable to support. Sooner or later the speculatively-induced price boom collapses, and the poorly-financed traders are washed out of the market.

After the 33⅓ percent margin requirement was adopted in October by the grain exchanges, wheat prices moved in a more orderly manner, with less pronounced fluctuations. Speculative activity was reduced as price variability declined. The higher margin rates were effective only on new speculative positions, however, and their full influence was not felt immediately.

In the autumn of 1947 wheat futures reached the highest levels since 1917, with a top price of \$3.20¼ per bushel for the December future on November 28. Prices remained at high levels through the middle of January 1948, declining during the latter half of the month. On the day following the break in corn prices of February 3, wheat futures began a sharp drop. Long speculative positions built up in the bull market in the fall were suddenly thrown on the market for liquidation. The May future dropped 50 cents a bushel during the first 2 weeks in February and later recovered to a level of around \$2.50.

The volume of trading on all wheat futures markets during the year aggregated 5,768,086,000 bushels, which was the largest since 1940. The largest monthly volume was in the September boom market, when the total for the month was 846,857,000 bushels. The smallest monthly volume was in May, amounting to 275,830,000 bushels.

As in previous years, the bulk of trading was on the Chicago Board of Trade, which accounted for 76 percent of total trading, compared to 79.9 percent in the previous year. Activity on the Kansas City Board of Trade and the Minneapolis Grain Exchange was three to four times larger than in the previous year, and both markets enjoyed a somewhat larger percentage of the total trading.

TABLE 3.—*Wheat futures: Classification of month-end commitments of traders, all markets combined, fiscal year 1948*

[In thousands of bushels, i. e., 000 omitted]

| Year and month | Total open contracts | Small traders' commitments | | Large traders' commitments (commitments of traders subject to 200,000-bushel reporting requirement) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Speculative | | Hedging | | Spreading | |
| | | Long | Short | Long | Short | Long | Short | Long | Short |
| *1947* | | | | | | | | | |
| July | 106, 864 | 49, 982 | 40, 622 | 10, 675 | 312 | 25, 137 | 44, 860 | 21, 070 | 21, 070 |
| August | 130, 911 | 72, 526 | 39, 386 | 18, 943 | 271 | 19, 033 | 70, 845 | 20, 409 | 20, 409 |
| September | 133, 012 | 63, 922 | 42, 458 | 20, 964 | 286 | 29, 062 | 71, 204 | 19, 064 | 19, 064 |
| October | 126, 828 | 59, 367 | 41, 716 | 15, 326 | 860 | 26, 514 | 58, 631 | 25, 621 | 25, 621 |
| November | 120, 804 | 56, 301 | 41, 865 | 11, 059 | 1, 040 | 24, 463 | 48, 918 | 28, 981 | 28, 981 |
| December | 98, 933 | 51, 960 | 36, 557 | 7, 688 | 3, 614 | 17, 354 | 36, 831 | 21, 931 | 21, 931 |
| *1948* | | | | | | | | | |
| January | 90, 633 | 49, 857 | 36, 662 | 6, 345 | 6, 581 | 16, 333 | 29, 292 | 18, 098 | 18, 098 |
| February | 71, 914 | 39, 562 | 31, 194 | 5, 169 | 3, 940 | 18, 234 | 27, 831 | 8, 949 | 8, 949 |
| March | 67, 007 | 34, 043 | 34, 625 | 4, 219 | 4, 111 | 20, 832 | 20, 358 | 7, 913 | 7, 913 |
| April | 59, 873 | 31, 207 | 33, 964 | 2, 221 | 4, 750 | 18, 470 | 13, 184 | 7, 975 | 7, 975 |
| May | 52, 546 | 25, 138 | 31, 647 | 2, 645 | 2, 030 | 16, 010 | 10, 116 | 8, 753 | 8, 753 |
| June | 69, 072 | 30, 503 | 31, 443 | 4, 309 | 2, 270 | 22, 638 | 23, 737 | 11, 622 | 11, 622 |

**Corn**

Although wheat attracted greater public interest than any other commodity during the year, trading in corn futures sparked the speculative boom in commodities in the summer and fall of 1947, and corn dropped first in the February price break.

Between May and September 1947 corn futures prices advanced more than a dollar a bushel. The September future at Chicago increased from \$1.49½ on May 1 to \$2.65⅝ on September 15. The year's high of \$2.70¾ was reached on January 16, 1948, in the May future. After the February price break, the old-crop May future stabilized at around \$2.20 during the spring months.

Prospects for abundant corn supplies in 1947–48 were threatened by wet weather at planting time. During the summer of 1947, stocks in commercial channels dropped to low levels and short hedging commitments of merchants and processors fell off sharply. For a time this threatening situation in corn received greater public attention than favorable news of wheat and other feedstuffs. It was said that the shortage of corn would bring further increases in prices of grains and meat.

The reduction in margin requirements in May on the Chicago Board of Trade had made corn futures the best speculative "bargain" on the commodity shelf. Speculators flocked into the market and in June the volume of trading in corn futures exceeded a half billion bushels, the largest June volume for corn in nearly 15 years. As corn prices advanced above $2.00 a bushel in the summer, the "down payment" became less than 10 percent on new speculative positions. With relatively little hedging interest because of small amounts of corn in commercial channels, the aggressive purchases by speculators tended to push prices upward.

A special survey by the CEA of all accounts in corn futures on the Chicago Board of Trade, as of June 30, 1947, showed the predominantly speculative character of the corn market. More than 90 percent of the 4,300 accounts in the market were those of speculators. Speculative traders held about three-fourths of the total long open contracts and about two-thirds of the short open contracts.

After the middle of September prices receded somewhat. Speculators who had been buying corn futures heavily began cutting their commitments and some shifted to the short side of the market. Prices remained lower in October and November, the first months of the new crop year, returning to the September levels in December and January.

Speculative buying interest in futures diminished by the beginning of 1948, and supplies of corn available for the remainder of the crop year appeared to be somewhat greater than had been anticipated earlier. There was a gradual accumulation of stocks of cash corn in commercial channels, and short hedging sales of this corn in the futures market were absorbed only at considerably lower prices.

In the last half of January the market sold off, the largest cracks appearing in the near futures. The big commodity break began in corn on February 3, 1948, and the following day all grain futures prices were down the permissible limits. The May corn future dropped the permissible limit on each of 7 trading days over a 2-week period. It fell more than 70 cents from the January peak before recovering somewhat.

During the spring the May futures prices were relatively stable at a level of around $2.20 per bushel. Distant corn futures reflecting favorable prospects for the new crop sold well under this level in the late spring and summer of 1948.

TABLE 4.—*Corn futures: Classification of month-end commitments of traders, all markets combined, fiscal year 1948*

[In thousands of bushels, i. e., 000 omitted]

| Year and month | Total open contracts | Small traders' commitments | | Large traders' commitments (commitments of traders subject to 200,000-bushel reporting requirement) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Speculative | | Hedging | | Spreading | |
| | | Long | Short | Long | Short | Long | Short | Long | Short |
| *1947* | | | | | | | | | |
| July | 49, 528 | 27, 351 | 35, 231 | 6, 465 | 380 | 7, 092 | 5, 297 | 8, 620 | 8, 620 |
| August | 60, 398 | 33, 406 | 38, 923 | 10, 850 | 1, 446 | 3, 493 | 7, 380 | 12, 649 | 12, 649 |
| September | 53, 419 | 28, 976 | 30, 797 | 8, 863 | 2, 208 | 3, 925 | 8, 759 | 11, 655 | 11, 655 |
| October | 58, 614 | 29, 125 | 31, 016 | 7, 070 | 2, 567 | 9, 328 | 11, 940 | 13, 091 | 13, 091 |
| November | 57, 297 | 27, 339 | 28, 116 | 6, 215 | 1, 728 | 9, 748 | 13, 458 | 13, 995 | 13, 995 |
| December | 50, 067 | 28, 589 | 26, 776 | 3, 165 | 1, 568 | 8, 306 | 11, 716 | 10, 007 | 10, 007 |
| *1948* | | | | | | | | | |
| January | 54, 934 | 29, 662 | 28, 223 | 2, 975 | 1, 611 | 11, 206 | 14, 009 | 11, 091 | 11, 091 |
| February | 52, 089 | 27, 138 | 24, 086 | 5, 010 | 834 | 10, 074 | 17, 302 | 9, 867 | 9, 867 |
| March | 48, 365 | 24, 424 | 25, 536 | 2, 655 | 984 | 9, 783 | 10, 342 | 11, 503 | 11, 503 |
| April | 49, 063 | 27, 193 | 28, 403 | 2, 681 | 2, 834 | 8, 622 | 7, 259 | 10, 567 | 10, 567 |
| May | 47, 652 | 28, 819 | 27, 428 | 4, 220 | 4, 402 | 5, 092 | 6, 301 | 9, 521 | 9, 521 |
| June | 54, 921 | 30, 821 | 34, 142 | 4, 540 | 3, 977 | 6, 924 | 4, 166 | 12, 636 | 12, 636 |

## Oats

Trading in oat futures in the 1948 year resumed its normal third-place position among the grains. In the preceding year, the record trading volume in oats had been larger than the volume in either wheat or corn. The volume for 1948, aggregating 2,668,554,000 bushels, although not a record, was much larger than the average for the twenties and thirties. The Chicago Board of Trade continued to enjoy nearly 90 percent of the total futures trading in oats, with most of the remainder on the Minneapolis Grain Exchange.

Oat futures prices rose almost steadily through the summer and fall of 1947, influenced by rising corn prices. The December oat future at Chicago advanced from 84 cents per bushel on July 1 to $1.24 on September 10, the highest point of that month. The near futures continued to command high prices during the autumn months as supplies in commercial channels diminished. On January 23, the May future at Chicago touched $1.29¾, equaling the highest price of the year for an active oat future. In early February oat prices broke sharply along with other grains. The May future dropped to 96⅝ cents on February 11, but quickly recovered to a level of $1.10. The new crop futures were already selling appreciably below old crop futures on prospects of larger supplies in 1948, and with a minor exception they sold below $1.00 per bushel for the remainder of the year.

Although production of oats and the volume of trading in futures in 1947–48 were smaller than in the previous year, open contracts

and hedging commitments were larger during the principal marketing season, indicating that the futures markets were providing adequate hedging facilities for the movement of the crop. Larger supplies of oats were moved into commercial channels during the fall marketing season than in the previous year. As elevators and mills hedged these supplies in the futures markets, open contracts built up to higher levels than in the preceding fall. Visible supplies of oats dropped sharply during the winter and spring months, and open contracts in futures declined.

### Soybeans

After a long period of inactivity during the war years, futures trading in soybeans on the Chicago Board of Trade was resumed on July 7, 1947.

With continued heavy demand for the commodity, the smallest crop since 1941, and limited supplies in commercial channels, short hedging commitments in the futures market were small and trading activity light. In this thin-market situation price movements were nervous, with wide fluctuations.

Futures prices ranged much above the 1947 farm support price of $2.04 per bushel for U. S. No. 2 Green or Yellow beans. The lowest level recorded was $2.65 per bushel on July 11, 1947, for the November future, and the highest quotation was $4.41 on January 16 for the March future. Both old- and new-crop futures broke sharply in July 1948, reflecting improved crop prospects and the world situation in fats and oils.

In July and August 1948 there was a large trading volume in the soybean futures market. By the beginning of the new crop year trading volume had expanded to a point exceeded only by the record market of 1941.

### Cotton

Compared with the small cotton crop of 8,640,000 bales in 1946, the 1947 crop of 11,857,000 bales represented a very substantial increase which restored cotton production to near the average level of the previous 10 years. This increased production tended to relieve the intense demand for cotton goods, which had accumulated during the war years. Domestic consumption of cotton was somewhat smaller than in the previous year. Exports were also smaller, but the prospective export requirements in the winter and spring of 1948, in connection with the development of the European Recovery Program, was a strong price-supporting factor in cotton during those months.

Cotton prices during the year ended June 30, 1948, did not experience such extreme price fluctuations as occurred in the markets for grains and some other commodities. For the year as a whole cotton prices ranged only slightly below those of the previous year. The average price of $^{15}\!/_{16}''$ Middling cotton on the 10-spot markets was 34.58 cents per pound in the 1947–48 crop year, compared with 34.82 cents in the previous crop year.

Spot cotton and the near futures sold as high as 39 cents per pound in July 1947, then declined to 31- and 32-cent levels in September and October as cotton from the new crop was ginned in volume and freely marketed. During the fall marketing season the distant futures sold at small discounts under spot and near futures prices.

As large supplies of cotton moved into the hands of merchants and mills in the late fall and early winter, and were hedged in the futures markets, the short hedging commitments and total open contracts in cotton reached the highest levels of the year. The short hedging commitments of large traders reported to the CEA rose from 547,000 bales on June 30, 1947, to the year's peak of 1,402,000 bales on November 30. Total open contracts increased during this period from 2,126,000 bales to 3,195,000. The high level of trading activity in cotton futures which had developed in 1946 and early 1947 continued during the fall and winter of 1947–48.

In the early months of 1948 the prospect of larger exports exerted an increasing influence on the market. The tightening supply situation was reflected in the development of substantial premiums on the near (old-crop) futures, which sold 3 to 4 cents a pound higher than the distant months. This situation attracted increased speculative buying of cotton futures, and there was also a substantial rise in long hedging positions. Cotton declined in February in sympathy with the general commodity price break, but soon recovered, the spot and near futures moving up to 36- and 37-cent levels during the spring months. In April the volume of trading was the heaviest of the year.

Prices turned downward again and trading activity dropped sharply in the summer as prospects for a bumper 1948 cotton crop materialized and exports failed to reach the volume anticipated earlier in the season.

TABLE 5.—*Cotton futures: Classification of month-end commitments of traders, all markets combined, fiscal year 1948*

[In thousands of bales, i. e., 000 omitted]

| Year and month | Total open contracts | Small traders' commitments | | Large traders' commitments (commitments of traders subject to 5,000-bale reporting requirement) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Speculative | | Hedging | | Straddling | |
| | | Long | Short | Long | Short | Long | Short | Long | Short |
| *1947* | | | | | | | | | |
| July | 2, 126 | 1, 227 | 1, 229 | 52 | 27 | 632 | 655 | 215 | 215 |
| August | 2, 231 | 1, 230 | 1, 272 | 42 | 31 | 709 | 678 | 250 | 250 |
| September | 2, 382 | 1, 379 | 1, 211 | 86 | 30 | 579 | 803 | 338 | 338 |
| October | 2, 999 | 1, 826 | 1, 294 | 223 | 39 | 609 | 1, 325 | 341 | 341 |
| November | 3, 195 | 2, 033 | 1, 363 | 244 | 51 | 539 | 1, 402 | 379 | 379 |
| December | 3, 530 | 2, 168 | 1, 533 | 281 | 42 | 515 | 1, 389 | 566 | 566 |
| *1948* | | | | | | | | | |
| January | 3, 330 | 2, 072 | 1, 691 | 236 | 62 | 640 | 1, 195 | 382 | 382 |
| February | 2, 974 | 1, 738 | 1, 639 | 178 | 58 | 754 | 973 | 304 | 304 |
| March | 2, 786 | 1, 622 | 1, 500 | 208 | 38 | 626 | 918 | 330 | 330 |
| April | 2, 453 | 1, 472 | 1, 443 | 191 | 38 | 551 | 733 | 239 | 239 |
| May | 2, 237 | 1, 314 | 1, 350 | 182 | 27 | 466 | 585 | 275 | 275 |
| June | 2, 092 | 1, 195 | 1, 306 | 145 | 32 | 472 | 474 | 280 | 280 |

### Butter

Factory production of butter continued during the year at greatly reduced levels. The 1,217,000,000 pounds produced during the year was 10 percent below the previous year and approximately one-third less than in 1940–41. In the winter and spring of 1947–48, commercial stocks of butter at principal markets dropped to the lowest point in many years. In January 1948, Chicago butter futures sold above 80 cents per pound for the first time on record.

During the year the butter futures market of the Chicago Mercantile Exchange had the largest volume of trading since the beginning of World War II. The Chicago trading, which was 21,517 carlots (approximately 413,000,000 pounds) for the year, was about the same as the average for the twenties and thirties.

Trading in butter futures was resumed in large volume in connection with the into-storage movement of the commodity in the spring of 1947. Activity in the market increased sharply in the summer and fall as storage stocks from the flush-production season built up to the year's peak, and attracted a large number of hedging sales. The purchases of speculators absorbed most of these sales.

The heavy consumer demand for butter continued into the winter, and by January 1 cold-storage holdings of the commodity dropped to the lowest level for that date in many years. Futures market activity declined to a low ebb until the spring of 1948, when another seasonal into-storage movement of butter began.

Prices of Chicago butter futures, storage standards, increased from 67 cents per pound (November future) on July 1, 1947, to 76.95 on September 10. The spot price on this day was 84.5 cents for 92-score butter in carlot quantities at Chicago. The heavy premiums for spot butter continued throughout the year. After September 10, spot and futures prices declined until the latter part of November. The peak futures price of the year was reached on January 16 when the near future sold for 82.50 cents per pound.

Butter futures and spot prices dropped 5 to 10 cents per pound during the February price decline, but the decrease was less pronounced than those in grains and other commodities. Reflecting the continued short-supply situation, butter prices tended upward toward the close of the year. On June 30, the November future sold at 78.20 cents per pound, and the Chicago spot price was 80 cents.

### Eggs

Egg production during the year continued to decline moderately from the record levels reached during the war-years. Receipts of eggs at Chicago, New York, and other large terminals were somewhat smaller than in the previous year, and the movement of shell eggs into cold storage in the spring and summer of 1947 was the smallest on record.

With smaller hedgeable stocks in commercial channels, egg futures trading—primarily trading in refrigerator eggs—declined by about 8 percent from the all-time record of the previous year. The volume for 1948 was 125,020 carlots, the second largest on record.

The October egg future advanced from 37.90 cents per dozen at the beginning of January 1947 to 52.15 cents on June 30, and to 58.55 on September 10, the high point of the year. The market broke on September 12, and by the end of October the near futures were down to a level of 44 to 45 cents. There were further wide price fluctuations during the winter, but neither spot prices nor futures were greatly affected by the price break which occurred in other commodities in February 1948. Prices tended upward during the storage-accumulation period in the spring of 1948.

The quantity of eggs in storage at the peak of the 1947 season on August 1 was less than half the level of the previous year and the smallest in 33 years of U. S. D. A. records. With smaller stocks in commercial cold storage, short hedging commitments and total open contracts at their seasonal peak on August 14 were sharply under the level of 1 year earlier. Despite rising futures prices, storage operators were evidently reluctant to undertake large storage operations in 1947 in view of the below-average profit margins reported for the previous year.

Accompanying the price rise during the summer months, there was a broad speculative interest in the futures market. The volume of trading increased from 9,035 carlots in June to the year's peak of 19,013 carlots in September. This volume was nearly equal to the peak month of the previous year, when the hedging interest in the market was much larger.

This speculative interest in egg futures waned following the price decline which began on September 12. Also in September, short hedging positions and total open contracts dropped sharply as eggs came out of storage. Trading and open contracts continued to decrease until the seasonal storage accumulation period of 1948.

Contrary to expectations, it subsequently appeared that margins on 1947 storage operations were above average, and in the spring of 1948 shell eggs began moving into storage in much larger volume than in the preceding year. By June 30, storage holdings of refrigerator eggs, hedging commitments in futures, and total open contracts were all considerably larger than one year earlier, although speculative activity was smaller.

TABLE 6.—*Egg futures: Classification of month-end commitments of traders, all markets combined, fiscal year 1948*

[In carlots]

| Year and month | Total open contracts | Small traders' commitments | | Large traders' commitments (commitments of traders subject to 25-carlot reporting requirement) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Speculative | | Hedging | | Spreading | |
| | | Long | Short | Long | Short | Long | Short | Long | Short |
| *1947* | | | | | | | | | |
| July | 3, 871 | 2, 867 | 2, 252 | 475 | 66 | 224 | 1, 248 | 305 | 305 |
| August | 4, 055 | 2, 781 | 2, 327 | 589 | 134 | 302 | 1, 211 | 383 | 383 |
| September | 3, 258 | 2, 777 | 1, 997 | 208 | 157 | 79 | 910 | 194 | 194 |
| October | 2, 396 | 2, 040 | 1, 190 | 15 | 26 | 1 | 840 | 340 | 340 |
| November | 2, 364 | 1, 742 | 1, 466 | 227 | 113 | 67 | 457 | 328 | 328 |
| December | 1, 703 | 1, 430 | 927 | 207 | 263 | 19 | 466 | 47 | 47 |
| *1948* | | | | | | | | | |
| January | 970 | 843 | 796 | 66 | 111 | 61 | 63 | 0 | 0 |
| February | 1, 242 | 1, 112 | 908 | 105 | 201 | 25 | 133 | 0 | 0 |
| March | 1, 591 | 1, 209 | 1, 157 | 109 | 26 | 273 | 408 | 0 | 0 |
| April | 2, 718 | 1, 984 | 1, 199 | 271 | 40 | 351 | 1, 367 | 112 | 112 |
| May | 3, 412 | 2, 382 | 1, 268 | 549 | 37 | 362 | 1, 988 | 119 | 119 |
| June | 4, 501 | 3, 026 | 1, 353 | 793 | 26 | 486 | 2, 926 | 196 | 196 |

**Potatoes**

Producers and dealers made increasing use during the year of the facilities of the New York Mercantile Exchange. The volume of potato futures trading on the market increased from 16,142 carlots in the 1947 fiscal year to 27,563 carlots in 1948.

In the past few years the New York exchange has become the largest potato futures market in the country. The trade in New York is in specified types of Maine-grown potatoes, U. S. Standards, and the principal contract months are November, December, January, February, and March.

As potatoes from Maine's important surplus-producing areas were harvested in the summer and fall of 1947, producers' associations, shippers, and dealers hedged substantial stocks in the New York market for price protection. Against these short hedging sales there was aggressive speculative buying on the long side, and prices moved generally upward during the fall and winter marketing season.

Open contracts in potato futures, reflecting the into-storage movement, built up to a level of about 2,000 carlots in the summer and fall of 1947, and remained near that level until January. During the winter and spring months, the hedges were removed and open contracts in futures declined as potatoes were moved into consuming channels.

Potato futures prices increased from $3 per cwt. (December future) on July 1, 1947, to a high of $3.70 on November 19, with the distant futures selling around $4.00. Prices receded from this level during the winter, and declined further in the spring as potatoes from the early-producing areas began to move in volume. On June 30 prices for December and January delivery ranged from $3.38 to $3.55.

### Cottonseed Oil

Production of cottonseed oil from crushings of the 1947 cottonseed crop was considerably above the outturn of the previous year. There were substantial supplies in commercial channels and a revival of hedging. In the fall of 1947 there developed the first large cottonseed oil futures market since 1941. Trading continued at high levels during the winter and early spring. All futures trading in the commodity during the year was on the New York Produce Exchange.

For the year as a whole the trading volume and average open contracts were roughly about half as large as in the years immediately preceding the war. The market pattern in the fall and winter of 1947–48 was fairly typical. The short side was composed mainly of hedges against stocks; the long side consisted primarily of speculative accounts.

After declining steadily for several months, cottonseed oil prices broke rather sharply in August 1947, the December future selling as low as 15.60 cents per pound. Speculators readily absorbed sales of hedgers at this level, and in early September there were further large speculative purchases, influenced apparently by reports and rumors of increased export allocations for fats and oils. The December future advanced above 25 cents in September and to 33 cents at the end of November.

Open contracts in cottonseed oil reached the year's peak of 86,400,000 pounds in mid-December, concurrently with the year's peak in reported short hedging positions. At this time the long side was composed principally of speculative holdings. Thereafter, open contracts, short hedging commitments, and long speculative positions declined.

In February there was a temporary decline in cottonseed-oil futures prices. Large processors increased their reported long hedges substantially in this period. The volume of trading in February was the largest of the year. Prices quickly recovered, and in March and April the advance was resumed, accompanied by a continued large volume of trading. A tight situation developed in the May cottonseed-oil future, which reached a high on May 14 of 43 cents per pound. Prices were lower during the summer of 1948, and the volume of trading and open contracts receded.

### Lard

In the late summer and early fall of 1947 the Chicago lard futures market, which up to that time had made only a modest recovery from the long period of wartime inactivity, attracted wide interest and emerged as one of the largest and most active futures markets of the year. The volume of trading was the largest of any fiscal year on

record. Basically, the production picture in lard did not change greatly during the year.

In the late summer of 1947 lard supplies in commercial channels declined and futures prices advanced in brisk trading. On September 9 the lard futures volume exceeded 20,000,000 pounds for the first time since the day after Pearl Harbor. During the month the price of the November future advanced about 5 cents per pound, closing at 23.05 cents on September 30.

In October and November storage stocks of lard in Chicago continued to decline seasonally, and short hedging commitments in futures decreased correspondingly. Meanwhile, however, large speculators and hedgers made substantial purchases of futures, and prices continued upward to reach the year's peak of 29.60 cents for the December future on November 28.

Lard prices dropped sharply in the February commodity price break, the near futures declining 4 to 5 cents per pound, and wiping out the advance which had occurred since the preceding September.

The volume of trading, however, which had declined in November and December, surged forward again in the late winter and spring. Trading on February 11, 1948, aggregating 32,440,000 pounds, was the largest daily volume for the year, and the April total of 382,600,000 was the largest monthly total.

With increasing seasonal stocks of lard in commercial channels in the late winter and spring of 1948, the short hedging commitments of large traders rose. Large and small speculators came in on the long side of the market and absorbed these short hedging commitments. During the spring and early summer lard futures prices were fairly stable around 23 cents.

U. S. GOVERNMENT PRINTING OFFICE: 1948

For sale by the Superintendent of Documents, U. S. Government Printing Office
Washington 25, D. C. - Price 10 cents

# Report of the Administrator

## of the

# Commodity Exchange Authority

## 1949



UNITED STATES DEPARTMENT OF AGRICULTURE

Commodity Exchange Authority

and above the prewar level. Activity in corn futures continued in approximately the same large volume as in the previous year, whereas the volumes in soy beans and lard in Chicago and in cottonseed oil in New York were the largest in CEA records. In other commodities, futures trading increased in rye, wool tops, cottonseed meal, and soybean meal, and decreased in oats, butter, eggs, potatoes, bran, and shorts. There was little futures activity in flaxseed, grain sorghums, and rice.

## REGULATORY WORK DURING THE YEAR

Progress was made in strengthening phases of the regulatory work which could not be adequately covered during the war and immediate postwar period. Investigations of trading practices on the floors of three exchanges, the first on a comprehensive scale since 1942, reemphasized to the trade the requirements for the maintenance of high standards in the execution of customers' orders, and for accurate and impartial dealings to assure correct registration of prices.

Futures market situations that were accompanied by wide fluctuations affecting agricultural prices were the subject of special investigations, the results of which are summarized in this report. Such an investigation was made of trading in all accounts in wheat, corn, and soybean futures on the Chicago Board of Trade during the February 1949 price break in grains. Other special investigations covered cottonseed oil futures on the New York Produce Exchange, and wool-top futures trading on the market conducted by the Wool Associates of the New York Cotton Exchange.

In grains and cotton, the effectiveness of regulatory controls was maintained through strict enforcement of the limits on speculation by large traders. There is urgent need for similar limits on speculative trading in eggs, soybeans, wool tops, and cottonseed oil. (See p. 22.)

Compliance actions during the year dealt with traders charged with price manipulation, cheating and fraud in the execution of customers' orders, false record keeping, ond other violations of law.

Audits during the year of the books and records of commodity brokers and brokerage houses registered under the act as futures commission merchants disclosed more than 400 deviations requiring corrective action.

The total number of customers' accounts in all regulated commodities, as reported by futures commission merchants as of December 31, 1948, was 26,400, not greatly changed from the 28,095 accounts reported a year earlier.

In a year of wide shifts in price opinion and traders' market positions, the compilation and analysis of data from required trade reports was of particular importance. More than a half-million daily reports were made to the CEA on trading volume, open contracts, and large-trader operations. The number of traders with holdings of sufficient size to require daily reporting increased during the year. With the increased number of large traders in reporting status, the CEA had daily check on the individual accounts of traders whose combined holdings averaged 40 to 50 percent of the total futures contracts in most of the commodities.

## BREAK IN GRAIN PRICES, FEBRUARY 1949

When grain prices declined in January and early February 1949, many speculative longs suffered cumulative losses, with consequent depletion of margins and equities. In the morning session on February 8, a wave of liquidation swept the Chicago grain market. Prices of wheat, corn, and soybeans dropped the permissible daily limits, and the decline continued the following day. At the low point on February 9, wheat futures prices on the Chicago Board of Trade had declined 18 to 19 cents a bushel from the opening on February 8, corn futures about 14 cents and soybeans 20 cents.

The CEA made an investigation covering positions in all accounts in wheat, corn, and soybean futures on the Chicago market at the close on February 7, and all trading on February 8 and 9. The investigation and analysis showed that small traders were concentrated on the long side in all three markets prior to the price break, and that the heavy liquidation of their accounts on February 8 and 9 was the major factor in the sudden fall in prices.

The number of accounts in the market at the close on February 7 was as follows: Wheat 3,184, corn 3,812, and soybeans, 1,822. Approximately 80 percent of the accounts in each commodity were speculative, the rest being classified as hedges. A majority of the speculators with net positions were long in the market, with a particularly heavy concentration of speculative traders and positions on the long side in corn. In all three grains 90 percent or more of the speculators with net long positions were relatively small traders, holding less than 25,000 bushels each. Hedgers with small positions were also predominantly long in each grain. Although small speculators were the most numerous element in the market, they did not hold the largest proportion of the total commitments. The bulk of the speculative holdings was in the hands of the larger-sized traders whose positions were net short in wheat, and net long in corn and soybeans.

In the trading on February 8 and 9 more than one-fourth of all the net long speculators were swept out of the market—24 percent of the total in wheat and corn and 35 percent in soybeans. Altogether, nearly 1,000 net long accounts were completely liquidated and 680 were liquidated in part. All but 58 of the net longs whose positions were wholly liquidated were small traders with holdings of less than 25,000 bushels each.

In wheat, net long speculators on February 8 and 9 liquidated 5,037,000 bushels, or 30 percent of their long holdings; in corn, 7,494,000 bushels, or 26 percent; and in soybeans, 2,560,000 bushels, or 34 percent.

As longs liquidated, the price break was accentuated by the additional short selling of speculators already in the market and by new short selling of speculators attracted to the market by the price decline. In wheat, for example, 208 speculators already net short in the market made additional sales of 2,809,000 bushels during the 2-day period, and exactly 208 others who were not in the market at the close on February 7 came in and sold short 1,464,000 bushels.

Although covering purchases by short speculators apparently offered but little support to the market during the initial stages of the price break, for the 2-day period as a whole there was a large volume

of covering purchases by short speculators. In wheat, speculators net short at the close on February 7 covered 6,957,000 bushels on February 8 and 9, or 30 percent of their initial short positions; and in corn, 3,632,000 bushels, or 38 percent of initial short positions. In these operations, more than half of the speculative accounts net short on February 7 covered their positions in whole or part.

In the late morning and afternoon of February 9, the second day of the price break, new support came into the markets, particularly in corn, which at lower prices attracted a large volume of new buying by hedging as well as speculative accounts. Prices of all three grains closed higher for the day; and over the next few days recovered the ground lost during the price-break period.

The high percentage of small traders who sold out—or were sold out—in such a short space of time as in the grain-price break of February 8 and 9 clearly shows the result of inadequately financed commodity accounts. In a market with adequate speculative margin requirements, large numbers of traders would not have been forced to liquidate with such heavy losses in a 2-day drop in prices. In a market, however, with wheat over $2 a bushel, a speculative margin requirement of 20 cents a bushel, and a maximum daily price fluctuation limit of 10 cents a bushel up or down, a sharp decline for 2 days was enough to wipe out hundreds of speculative longs. If the net longs forced out had been able to "weather" the decline, which was sharp but of short duration, a considerable part of their losses could have been avoided in view of the subsequent recovery in prices. Moreover, with more adequate margins, selling by accounts with impaired margins would probably have been less urgent, and the price decline less drastic.

At the same time, higher margin requirements would have curtailed short selling by speculators entering the market, and also limited the amount of additional selling by speculative shorts already in the market who used "paper profits" accruing from the price decline to finance additional short sales.

In brief, the investigation of the grain markets of February 8 and 9 tells much the same story found by other investigations of commodity price breaks. When people enter a speculative market with only a small part of the total value of the commodity put up as margin, the tendency is to acquire the largest position possible with the funds at hand. With any considerable decline in prices, traders of limited financial resources are forced to withdraw from the market—or be sold out. When this happens to a substantial number of traders a further sharp break in prices is the inevitable result.

## INVESTIGATION OF TRADING IN COTTONSEED OIL

When cottonseed oil was in short supply in 1948, there were wide fluctuations in futures prices on the New York Produce Exchange, particularly in connection with the expiration of maturing futures. The 1948 May future, in the last few days of trading, advanced sharply and sold as high as 8 cents a pound over crude oil and 6.60 cents over the July future. Prices reacted sharply after the May future expired. There were also wide price movements near the expiration of the 1948 July and September futures. Since price fluctuations in the futures

market had a direct bearing on spot oil prices, they were of consequence to producers, crushers, refiners, and food manufacturers throughout the industry.

An investigation by the CEA included an examination of trading and positions in the futures market from September 1, 1947, through September 30, 1948, and a survey of merchandising practices conducted through interviews with representative members of the various branches of the cottonseed oil industry.

The investigation showed that cottonseed oil prices were thrown out of line by the keen competition of large processors and other traders attempting to obtain deliveries of scarce oil—or to fulfill their contractual obligations to supply oil—in a relatively small futures market, with a contract of limited delivery provisions. As the expiration of the 1948 May future approached, several processors with large long positions in futures stood for delivery. But shorts with deliverable oil for the most part preferred to cover at premium prices rather than surrender supplies of the scarce commodity. Short speculators who were in no position to deliver were forced to cover at progressively higher prices.

It was also found that in general members of the industry carried inventories of cottonseed oil on a speculative basis, and did not hedge extensively in the futures market as a means of price protection. The sporadic use of the futures market by segments of the industry was based on appraisals of the spot situation and the anticipated course of prices. This, in effect, meant shifting from speculation in spot oil to speculation in futures.

The general conclusions were that the cottonseed oil futures market was not broad enough to carry price risks in all situations on large inventories and inventory requirements without delivery difficulties and price repercussions. Unless the futures contract is representative of the bulk of the commodity for which hedging is needed, it does not serve the industry in general as a satisfactory hedging or pricing medium.

The report on the investigation recommended that serious consideration be given to the possibility of broadening the present cottonseed oil futures contract in order that a larger part of the industry may be able to utilize it as a better means of price protection. The single grade of refined oil which may be delivered makes the contract too narrow for effective use of the market by various types of traders. The addition of other deliverable types of oil would be a means of broadening the contract.

## WOOL-TOP MARKET

In view of the abrupt break in wool-top futures prices of approximately 11 cents a pound on March 16 and 17, 1949, a special survey was made by the CEA of all transactions and positions of traders in the market on those dates. The survey showed that the market had great difficulty in absorbing the liquidation of heavy speculative lines which had been built up over the preceding months by two large speculators. The hasty selling out of their positions was the principal factor in the break in prices.

The survey showed that the total number of traders in the wool-top futures market was small. As of March 16 there were only 208 traders in the market, the accounts of 144 being reported as speculative and 64 as hedging.

Total open contracts in the market on March 16 amounted to 5,895,-000 pounds. The holdings of speculators were 3,375,000 pounds on the long side and 2,710,000 short, accounting for 57.2 percent and 45.9 percent, respectively, of the total long and total short commitments. The speculative interest was concentrated in a few large accounts, four large speculators holding 55.9 percent of the total speculative positions long, and two large speculators holding 41.1 percent of the total short speculative interest.

The accounts reported as hedging amounted to 2,520,000 pounds long, or 42.8 percent of total long positions, and 3,185,000 pounds short, or 54.1 percent of total short contracts. Residents of Massachusetts and New York held the largest proportion of both speculative and hedging accounts.

## TRADE PRACTICE INVESTIGATIONS

The Compliance and Trade Practice Division of the CEA completed special investigations and analyses of trading practices on the New Orleans Cotton Exchange and the New York Cotton Exchange. A trade-practice survey on the New York Produce Exchange, covering trading in cottonseed oil futures, was in progress at the end of the year.

The over-all purpose of these investigations is to determine the origin and character of the various types of trading in the market, and the manner in which orders of the trading public are executed by brokers on the floor of the exchange. The investigations also test the accuracy and adequacy of the records required to be kept by exchange clearing members, and the official price records of the exchange.

Investigation of floor trading on the two cotton exchanges centered on a practice known as "stopping." Orders for the purchase and sale of futures frequently are placed with brokers for execution at the opening of the market or at the close, meaning that they are to be executed at the best obtainable price during the brief periods known as "opening" or "close" of the market. Instead of being so executed, it was found that large numbers of such orders were being offset (buying orders offset against selling orders) before the opening and before the close. This was done by mutual agreement between brokers to trade with each other. Thereafter, when the official opening or closing prices had been determined, these orders were reported as having been executed at prices approximating the average.

The practice of "stopping" expedites the execution of orders and enables execution of orders which otherwise might not be executed in the short period allowed, but the offsetting of buying and selling orders between brokers without competitive offering is a form of offsetting prohibited by the Commodity Exchange Act.

The Commodity Exchange Authority suggested to the exchanges that if exchange rules were revised so as to authorize average-price trading, i. e., actual competitive execution of orders at prices to be

determined later by the average of opening or closing prices, there could be no legal objection. In that event, customers would be on notice and would give their orders accordingly. It was pointed out, however, that even this practice was subject to abuse if the brokers executing orders for others were also trading for their own accounts in such a way as to influence the average of opening or closing prices.

Officials of the New Orleans Cotton Exchange cooperated fully with the CEA to correct this situation. After an extensive study of remedial proposals, in June 1949 the exchange adopted amendments to its rules providing a series of specific limitations on the practice of stopping. Measures for adoption by the New York Cotton Exchange were under consideration at the close of the year.

Under the new rule of the New Orleans market the execution of average-price trades is restricted to a 15-minute period prior to the opening and 30 minutes before the close. Such transactions may be executed only by offers made openly and accepted openly by public outcry across the trading ring. The rule also adopts a definite formula for determining the average opening or closing price, designed to eliminate the uncertainties involved in fractional price averages, and assure exactly the same average price for all brokers on all such executions. Furthermore, a broker who executes average-price trades before the opening or the closing call is prohibited from trading for himself during the call in such a manner as to alter the average price to his own advantage.

The problems involved in floor trading practices are important to all commodity exchanges. Floor trading practices bear directly on a most important function of the futures markets, namely, that of registering prices to the general public. Price determination in futures markets implies open, competitive trading. To the extent that orders for the purchase and sale of commodity futures contracts are not competitively executed, price-influencing forces are prevented from having their normal effect on the market.

Furthermore, it is generally assumed by the trading public that all orders on commodity exchanges are competitively executed. Any exception to the general rule of "auction trading" should be specifically provided for so that the customer will know in what manner his transaction is being executed.

## ENFORCEMENT OF SPECULATIVE LIMITS

During the year the CEA continued to maintain close surveillance of trading by large speculators, particularly with reference to the limits on speculative trading in grains and cotton. In these commodities it is unlawful under the Commodity Exchange Act for any trader to operate speculatively beyond certain fixed limits, such as 2,000,000 bushels in wheat futures on one market, and 30,000 bales in cotton futures on one market. Such limits were first authorized under the 1936 amendments to the act for the purpose of preventing excessive speculation by large traders. Enforcement of the limits has made it more difficult for large traders to establish positions of market "leadership," and has narrowed the field for price manipulation and market corners.

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With the unusual speculative activity of recent years, however, the number of large traders has increased, and some of them have built up substantial positions. To guard against violations of the speculative limits, the Trading and Reports Division made daily checks during the year on the reports from large traders and commission houses, giving special attention to the accounts of traders operating close to the limits. The periodic audits of the Segregation Audits Division provided an additional check on large traders' activities. In seven instances during the year grain traders were found exceeding speculative limits, and in two instances in cotton.

Equally important as the number of violations apprehended is the maintenance of the preventive effect of the speculative limits. Respect for the law in the trade generally is the ultimate test of market regulation. A case in point is that of the grain speculator who for a considerable period held a position of 1,995,000 bushels, just 5,000 bushels below the 2,000,000-bushel limit. In another instance a cotton speculator subject to the limitation of 30,000 bales per market placed 29,500 bales in one market and 29,200 bales in another market. The realization in the trade that the accounts of all large traders are being watched from day to day is an important factor in maintaining compliance with the speculative limits and other requirements of the act.

## STUDY OF SPECULATIVE TRADING IN GRAIN FUTURES

A study of speculative trading in grain futures completed during the year fills a long-standing need for comprehensive data on the actual profits and losses of speculators and throws much new light on the characteristic trading behavior of speculators.

A major research project in this important field was outlined in the late thirties when the CEA made arrangements to obtain basic data from the original trading records of a large Chicago brokerage house, which had retired from business.

The work was interrupted by the war and subsequently it has not been possible to cover all phases of the project as originally outlined. The results of the analysis made thus far are being published as Technical Bulletin No. 1001, An Analysis of Speculative Trading in Grain Futures.

The study is concerned primarily with the trading behavior of small speculators, and the results of their trading. Statistics are analyzed on the futures operations of nearly 9,000 traders, extending over a 9-year period (1924–1932) and involving more than 400,000 individual futures transactions.

The analysis showed that the great majority of speculators lost money in the grain futures market. Of the 8,782 speculators whose operations were analyzed, 6,598 had net losses compared with 2,184 who had net profits, or three times as many loss traders as profit traders. Losses of speculators were approximately six times total profits, or nearly $12,000,000 of losses, compared with about $2,000,000 of profits.

High loss ratios were due largely to the small speculator's characteristic hesitation in closing out loss positions. Speculators whose ac-

counts were studied showed a clear tendency to take profits and let losses run. Futures positions or cycles resulting in losses were held open for consistently longer durations than profit cycles.

The study confirms the commonly held impression that the amateur speculator is more likely to be long than short in the futures market, but from the standpoint of market activity the preference for the long side was not as great as is sometimes supposed. In wheat futures approximately 63 percent of the cycles was long and 37 percent short, in corn 58 percent was long and 42 percent short. The preference for the long side was more pronounced in oats and rye.

Although the number of large-scale traders whose operations were studied was relatively small, there was no evidence that this group included a greater proportion of profit traders than the groups with smaller average positions. Among major occupational groups the study showed no pronounced difference in trading results, all groups showing relatively small proportions of profit traders—managers in the grain business 29.1 percent, retired persons 26.6 percent, professional people 24.1 percent, manual workers 22.4 percent, farmers 21.2 percent.

The study does not attempt to explore all aspects of speculative trading in grain futures, nor to answer all the questions which it raises. The analysis is concerned primarily with the aggregate results of trading by small speculators over a fairly long period of time. There is need for further analysis of basic factual data to provide comprehensive information on other aspects of futures trading, such as short-run accumulations and liquidations in relation to price movements.

## PROPOSED LEGISLATION

Experience over the period of 13 years since the Commodity Exchange Act amendments of 1936 were enacted has shown the need for amending and strengthening the act. Under the existing legislation it has been difficult, and in some cases impossible, to deal effectively with certain types of trading and market situations. This has been pointed out in reports and statements by the administrator of the act. The Secretary of Agriculture has brought the most important problems to the attention of Congress. During the year specific recommendations for amending the act were embodied in proposed legislation introduced in the Congress as bills H. R. 4685 and S. 1751.

Under these bills the provisions of the Commodity Exchange Act would be extended to futures trading in 11 additional commodities at present not under regulation, and in such other agricultural or forest products as may be designated by the Secretary under provisions of the amended act. The 11 commodities specified are: wool, hides, rubber, cocoa beans, coffee, sugar, apples, onions, pepper, cheese, and eggs (frozen, dried, or otherwise processed).

Under another amendment the Secretary would be empowered to fix minimum margin requirements on speculative transactions in commodity futures as a means of preventing excessive speculation endangering price stability. Margin requirements on hedging transactions would be exempt.

The proposed legislation would also require the annual registration of commodity-trading advisory services, commonly referred to as market "tipsters," as well as commodity pool operators, and provide for regulation of their activities.

A further amendment would authorize the Secretary to designate additional delivery points for contract markets where needed, corresponding to the "multiple delivery point system" which has been in effect for years on many markets.

Other provisions of bills H. R. 4685 and S. 1751 would amend the statutory definition of "hedging," define the term "manipulate," require open and competitive bidding and offering in the execution of buying and selling orders for commodity futures contracts, and grant subpena powers in connection with investigations as well as administrative proceedings under the act.

## CONTRACT MARKETS UNDER SUPERVISION

The CEA supervises futures trading on commodity exchanges designated under the Commodity Exchange Act[1] as contract markets. The contract markets, and the commodities in which futures trading was conducted during the year under CEA supervision were as follows:

| *Market* | *Commodity* |
|---|---|
| Chicago Board of Trade | Wheat, corn, oats, rye, soybeans, lard, cotton. |
| Chicago Mercantile Exchange | Butter, eggs, potatoes. |
| Chicago Open Board of Trade | Wheat, corn, oats, rye, soybeans. |
| Duluth Board of Trade | (No trading in 1948–49). |
| Kansas City Board of Trade | Wheat, corn, grain sorghums, bran, shorts. |
| Los Angeles Grain Exchange | (No trading in 1948–49). |
| Memphis Merchants Exchange Clearing Association | Cottonseed meal, soybean meal. |
| Milwaukee Grain Exchange | Wheat, corn, oats, rye. |
| Minneapolis Grain Exchange | Wheat, oats, rye, flaxseed. |
| New Orleans Cotton Exchange | Cotton, cottonseed oil. |
| New York Cotton Exchange | Cotton. |
| New York Mercantile Exchange | Butter, eggs, potatoes, rice. |
| New York Produce Exchange | Cottonseed oil. |
| Portland Grain Exchange | (No trading in 1948–49). |
| St. Louis Merchants' Exchange | (No trading in 1948–49). |
| San Francisco Grain Exchange | (No trading in 1948–49). |
| Seattle Grain Exchange | Wheat. |
| Wool Associates of the New York Cotton Exchange | Wool tops. |

The contract markets, 18 in number, remained the same as in the previous year. However, on five contract markets trading was resumed in commodities which had been inactive on these markets for several years; and one exchange opened a futures market for rice.

Trading in rye futures was resumed on the Chicago Board of Trade, the Chicago Open Board of Trade, and the Milwaukee Grain Exchange. Futures trading in soybeans was resumed on the Chicago Open Board of Trade. Trades in cottonseed oil futures were executed on the New

[1] The Commodity Exchange Act applies to the following commodities: Wheat, corn, oats, rye, barley, flaxseed, grain sorghums, millfeeds, cotton, rice, butter, eggs, Irish potatoes, wool tops, fats and oils, cottonseed, cottonseed meal, peanuts, soybeans, and soybean meal.

Orleans Cotton Exchange for the first time in several years, and in flaxseed futures on the Minneapolis Grain Exchange. The application of the New York Mercantile Exchange, for designation as a contract market for rice, was approved by the Secretary of Agriculture on May 5, 1949; and the market was opened for trading on June 1. The New York market is the first to be designated for rice futures trading under the Commodity Exchange Act. Rice futures trading was conducted in New Orleans for a period during the twenties. At that time rice was not under regulation. It is one of the commodities brought under regulation by the amendments of 1936.

The total number of commodities in which futures trading was conducted during the year under CEA supervision was 19, the same number as in the previous year. However, the number for 1948–49 includes two commodities, flaxseed and rice, which were not traded in the previous year; and excludes two others, barley and soybean oil, in which there was nominal trading in 1947–48, but none in 1948–49.

Most of the exchanges designated as contract markets conduct futures trading in more than one supervised commodity. Thus, six of the exchanges provided futures markets in wheat during the year, four in corn, three in cotton, and so on. For all the designated exchanges combined, the total number of commodity futures markets under CEA supervision during the year was 40, compared with 35 in the previous year.

The regulatory work involved in connection with applications for contract market designations and review of exchange rules and regulations is performed by the License and Rules Division of the CEA. During the year the division conducted 105 examinations of exchange bylaws, rules, regulations, and resolutions and conferred with exchange officials when rule changes or amendments were proposed or adopted which were not in conformity with provisions of the act.

## REGISTRATION OF COMMODITY BROKERS

Orders of the trading public for the purchase and sale of commodity futures are handled by commodity brokers and brokerage firms, known as "futures commission merchants" under the Commodity Exchange Act. Commodity brokers and brokerage firms are widely distributed over the United States. A commodity broker or other person or firm engaged in soliciting or accepting orders for the purchase or sale of commodity futures on, or subject to, the rules of a contract market is required to register as a futures commission merchant each year. Floor brokers on the exchanges are also required to register annually.

The License and Rules Division registered 645 futures commission merchants during the year, compared with 659 in the previous year. The number of floor brokers registered was 749, compared with 734. As of June 30, 1949, registered futures commission merchants maintained a total of 1,741 principal and branch offices, compared with 1,707 offices 1 year earlier. At the close of the recent year the geographical distribution of the offices of futures commission merchants included 47 States, the District of Columbia, Hawaii, Puerto Rico, and 11 foreign countries.

TABLE 1.—*Geographical location of offices of registered futures commission merchants as of June 30, 1949*

| Location | Principal offices | Branch offices | Total |
|---|---|---|---|
| Alabama | 14 | 21 | 35 |
| Arizona | | 3 | 3 |
| Arkansas | 8 | 4 | 12 |
| California | 9 | 99 | 108 |
| Colorado | 2 | 7 | 9 |
| Connecticut | 1 | 16 | 17 |
| Delaware | 2 | 2 | 4 |
| District of Columbia | 2 | 8 | 10 |
| Florida | | 33 | 33 |
| Georgia | 7 | 24 | 31 |
| Hawaii | | 1 | 1 |
| Idaho | 1 | 3 | 4 |
| Illinois (excluding Chicago) | 4 | 54 | 58 |
| Chicago | 136 | 41 | 177 |
| Total Illinois | 140 | 95 | 235 |
| Indiana | 1 | 16 | 17 |
| Iowa | | 36 | 36 |
| Kansas | | 31 | 31 |
| Kentucky | 1 | 5 | 6 |
| Louisiana | 24 | 13 | 37 |
| Maine | 4 | 6 | 10 |
| Maryland | 3 | 9 | 12 |
| Massachusetts | 7 | 33 | 40 |
| Michigan | 2 | 26 | 28 |
| Minnesota | 40 | 46 | 86 |
| Mississippi | 12 | 6 | 18 |
| Missouri | 65 | 37 | 102 |
| Montana | 2 | 3 | 5 |
| Nebraska | 9 | 29 | 38 |
| Nevada | | 2 | 2 |
| New Hampshire | | 3 | 3 |
| New Jersey | 1 | 27 | 28 |
| New Mexico | | 1 | 1 |
| New York (excluding New York City) | 5 | 65 | 70 |
| New York City | 151 | 97 | 248 |
| Total New York | 156 | 162 | 318 |
| North Carolina | 1 | 26 | 27 |
| North Dakota | | 6 | 6 |
| Ohio | 11 | 33 | 44 |
| Oklahoma | | 11 | 11 |
| Oregon | 2 | 6 | 8 |
| Pennsylvania | 9 | 66 | 75 |
| Puerto Rico | | 1 | 1 |
| Rhode Island | 2 | 6 | 8 |
| South Carolina | 4 | 12 | 16 |
| South Dakota | | 5 | 5 |
| Tennessee | 26 | 28 | 54 |
| Texas | 14 | 50 | 64 |
| Utah | 1 | 2 | 3 |

Table 1.—*Geographical location of offices of registered futures commission merchants as of June 30, 1949*—Continued

| Location | Principal offices | Branch offices | Total |
|---|---|---|---|
| Vermont | -------- | 2 | 2 |
| Virginia | 1 | 10 | 11 |
| Washington | 3 | 8 | 11 |
| West Virginia | -------- | 5 | 5 |
| Wisconsin | 5 | 24 | 29 |
| Wyoming | -------- | -------- | -------- |
| Total United States | 592 | 1, 108 | 1, 700 |
| Foreign: | | | |
| Brazil | -------- | 1 | 1 |
| Canada | -------- | 13 | 13 |
| China | -------- | 1 | 1 |
| Cuba | -------- | 1 | 1 |
| France | -------- | 1 | 1 |
| Netherlands | -------- | 3 | 3 |
| Sweden | -------- | 1 | 1 |
| Switzerland | -------- | 6 | 6 |
| United Kingdom | -------- | 11 | 11 |
| Uruguay | -------- | 2 | 2 |
| Venezuela | -------- | 1 | 1 |
| Total foreign | -------- | 41 | 41 |
| Grand total | 592 | 1, 149 | 1, 741 |

## TRADING REPORTS

Information from two major types of required trade reports is used by the CEA in its day-to-day enforcement activities. These are the daily reports from exchange clearing members on volume of trading and open contracts, and the daily reports on the operations of large traders. The work load in connection with the compilation and analysis of the reports showed some increase this year, due to the resumption of trading in additional commodities by several exchanges, and a further increase in number of large traders in reporting status.

The Trading and Reports Division received a total of 528,000 reports during the year, which represented an increase of 11 percent over the 475,000 received in 1947–48.

Of the total in the recent year, 261,000 were daily reports from exchange clearing members and floor traders, compared with 229,000 in the preceding year. From these data the field offices of the CEA compile and release for publication each day the volume of trading and open contracts on the contract markets. A summary of the data on volume of trading and open contracts for the year is presented in subsequent sections of this report.

## REPORTS FROM LARGE TRADERS

The number of large-trader reports received for 1949 was 267,000, compared with 246,000 in the preceding year. The average number of large traders in daily reporting status was 629, compared with 568 in the previous year.

From the large-trader reports the CEA keeps currently informed on the market operations of large speculators, merchants, and processors. The reports are checked for indications of violations of the speculative limits in grain and cotton futures trading. They are also used extensively in connection with investigations, in checking and answering inquiries concerning alleged or apparent violations of the act, and in the preparation of evidence at hearings. The reports provide a fruitful source of information for testimony before congressional committees, and for administrative decisions and recommendations involving enforcement of the act.

Under CEA regulations any trader whose position in a regulated commodity reaches a certain level, such as 200,000 bushels in one wheat future, or 5,000 bales in one cotton future, is required to report daily all his trades and positions in that commodity. The reporting requirements for the various commodities are set at levels designed to provide a day-to-day check on the trades and positions of any trader whose operations are large enough to have an effect on the market. The reporting requirements in force as of June 30, 1949, for the various commodities were as follows:

| | *Quantity* |
|---|---|
| Wheat, corn, oats, rye, barley, flaxseed, soybeans, grain sorghum | 200,000 bushels. |
| Rice, milled | 56,000 pockets. |
| Cotton | 5,000 bales. |
| Wool tops | 125,000 pounds. |
| Butter, eggs, potatoes | 25 carlots. |
| Cottonseed oil, soybean oil [1] | 900,000 pounds. |
| Lard [1] | 600,000 pounds. |
| Millfeeds (bran, shorts, middlings), cottonseed meal, soybean meal | 1,000 tons. |

[1] In view of the easing of the supply situation in cottonseed oil and lard, the CEA revised the reporting requirements for these two commodities. Effective May 12, 1949, only those traders in cottonseed oil with positions of 900,000 pounds or more (15 carlots) are required to report, whereas, previously those with positions of 300,000 pounds or more were in reporting status. This revised regulation also applies to soybean oil. The revised reporting requirement for the two commodities is the same as before the war. The revised requirement for reporting traders in lard is 600,000 pounds, compared with 250,000 pounds prior to May 12, 1949, and 750,000 pounds before the war.

## VOLUME OF TRADING

A summarization of the data on volume of trading in regulated commodities during the year is presented in table 2.

Although the volume of trading in wheat and cotton declined from the postwar peaks of the previous year, the volume in most other commodities continued large in comparison with the previous year. Trading in the greater proportion of commodities was larger than the average for the prewar period 1935–39 and the 10-year period, 1939–48. The sharpest increases in 1949 were in fats and oils.

TABLE 2.—*Volume and estimated value of futures trading, by commodities, fiscal years 1947, 1948, and 1949*

VOLUME OF FUTURES TRADING

| Commodity | 1947 | 1948 | 1949 |
|---|---|---|---|
| Wheat thousand bushels | 2, 322, 382 | 5, 768, 086 | 4, 514, 893 |
| Corn do | 2, 608, 931 | 3, 798, 763 | 3, 678, 278 |
| Oats do | 3, 905, 617 | 2, 668, 554 | 1, 175, 747 |
| Rye do | 170 | 21, 141 | 125, 364 |
| Barley do | 2, 105 | 15 | ---------- |
| Flaxseed do | ---------- | ---------- | 11 |
| Soybeans do | ---------- | 40, 162 | 1, 537, 663 |
| Grain sorghums do | 1, 222 | 860 | 15 |
| Rice, milled thousand pounds | ---------- | ---------- | 1, 400 |
| Cotton thousand bales | 110, 248 | 110, 583 | 63, 385 |
| Wool tops thousand pounds | 21, 245 | 31, 650 | 50, 590 |
| Butter carlots | 3, 561 | 22, 066 | 17, 377 |
| Eggs do | 135, 325 | 125, 020 | 91, 191 |
| Potatoes do | 16, 324 | 27, 582 | 9, 214 |
| Lard thousand pounds | 157, 730 | 2, 938, 880 | 3, 613, 720 |
| Cottonseed oil do | 94, 020 | 1, 476, 900 | 3, 195, 810 |
| Soybean oil do | 360 | 900 | ---------- |
| Millfeeds (bran and shorts) tons | 134, 910 | 818, 850 | 550, 050 |
| Cottonseed meal do | 95, 900 | 245, 700 | 378, 800 |
| Soybean meal do | 153, 900 | 412, 200 | 474, 700 |

ESTIMATED VALUE OF FUTURES TRADING

| | 1947 | 1948 | 1949 |
|---|---|---|---|
| | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* |
| Wheat | 5, 385, 604 | 14, 979, 719 | 10, 117, 875 |
| Corn | 4, 568, 238 | 9, 166, 415 | 5, 723, 401 |
| Oats | 3, 417, 415 | 3, 191, 591 | 899, 446 |
| Rye | 515 | 54, 967 | 191, 682 |
| Barley | 3, 661 | 34 | ---------- |
| Flaxseed | ---------- | ---------- | 66 |
| Soybeans | ---------- | 147, 796 | 3, 997, 924 |
| Grain sorghums | 1, 930 | 1, 820 | 21 |
| Rice, milled | ---------- | ---------- | 212 |
| Cotton | 19, 006, 755 | 19, 280, 146 | 10, 239, 847 |
| Wool tops | 31, 400 | 57, 603 | 84, 586 |
| Butter | 48, 277 | 333, 426 | 217, 481 |
| Eggs | 965, 084 | 1, 008, 161 | 702, 975 |
| Potatoes | 25, 270 | 44, 680 | 15, 019 |
| Lard | 41, 168 | 670, 065 | 578, 195 |
| Cottonseed oil | 24, 633 | 403, 194 | 591, 225 |
| Soybean oil | 103 | 252 | ---------- |
| Millfeeds (bran and shorts) | 6, 586 | 52, 529 | 25, 099 |
| Cottonseed meal | 7, 313 | 21, 256 | 24, 452 |
| Soybean meal | 12, 120 | 38, 499 | 36, 006 |
| Total | 33, 546, 072 | 49, 452, 153 | 33, 445, 512 |

Trading in wheat futures on all markets amounted to 4,514,893,000 bushels, which was 22 percent below the level of the preceding year. In contrast, activity in corn futures, amounting to 3,678,278,000 bushels, was only slightly below the postwar peak of 1947–48. The volume in soybean futures, aggregating 1,537,663,000 bushels, was the largest on record. Futures trading in all grains on all markets com-

bined came to 11,031,971,000 bushels,[2] which was about 10 percent below the volume of the preceding year.

Of the total grain futures trading during the year, the Chicago Board of Trade accounted for 85.7 percent compared with 84.8 percent in the previous year, the Kansas City Board of Trade 5.9 percent and 6.7 percent, respectively, and the Minneapolis Grain Exchange 5.8 percent in both years.

Trading in cotton futures on the three futures markets amounted to 63,385,000 bales, which was 43 percent lower than the 110,583,000 bales traded in 1947–48. The volume in the recent year, however, was 9 percent above the average for the 1939–48 period.

The New York Cotton Exchange accounted for 64.6 percent of the total trading during the year, compared with 57.3 percent in the preceding year. The corresponding percentages for the New Orleans Cotton Exchange were 32.4 and 40.3, and for the Chicago Board of Trade, 3.0 and 2.4.

Transactions in wool tops on the market conducted by the Wool Associates of the New York Cotton Exchange amounted to 50,590,000 pounds, representing an increase of 60 percent compared with the previous year, and the largest volume since 1941.

The lard futures market of the Chicago Board of Trade had the busiest year in the 23-year period covered by CEA records. The lard volume was 3,613,720,000 pounds. This was an increase of approximately 23 percent over the 2,938,880,000 pounds traded in 1947–48, which previously was the largest on CEA records.

Trading in cottonseed oil futures on the New York Produce Exchange, amounting to 3,194,340,000 pounds, was more than double the previous year, and also the largest for the market in the 20-year period covered by CEA records. The previous peak for the New York market was 3,108,960,000 pounds traded in 1941. During the recent year there was a small volume of cottonseed oil futures transactions on the New Orleans Cotton Exchange, which reopened futures trading in the commodity for the first time since 1942.

In the produce commodities, butter, eggs, and potatoes, futures activity showed declines as compared with 1947–48, although the 90,699 carlots of egg futures traded on the Chicago Mercantile Exchange comprised the third largest volume on record, and 16,522 carlots of butter futures compared favorably with most previous years.

In terms of contracts, the number of futures transactions in all regulated commodities declined, as compared with the postwar peak reached in 1947–48, but was larger than in any other year during the 10-year period, 1939–48. Total purchases and sales in terms of contract units are estimated at 7,273,000 for the year ended June 30, 1949, compared with 8,863,000 in the preceding year, and an average of 5,567,000 for the 10-year period. The fact that total transactions in 1948–49 were below the level of the previous year was due primarily to the decrease in speculative activity in wheat and cotton futures.

Because of lower price levels in most commodities, the total dollar value of futures trading in regulated commodities reflected a greater decrease than the number of transactions. As shown in table 2, the

[2] Excluding rice.

estimated dollar value of trading in all regulated commodities was $33,445,512,000 in the recent year compared with $49,452,153,000 in 1947–48, which was the largest on record. However, the dollar value for the recent year was 88 percent greater than the average for the 10-year period, 1939–48.

## OPEN CONTRACTS

The annual averages of open contracts, as shown in table 3, do not reflect very substantial changes in most commodities in the 1949 fiscal year, as compared with the previous year. In wheat and cotton, notwithstanding rather pronounced declines in trading volume, the average level of open contracts did not decrease significantly. In both commodities a substantial hedging interest in the markets contributed to maintain the level of open contracts.

In wheat futures the highest month-end level of open contracts was in September 1948, when the amount was 113,400,000 bushels. Commercial wheat stocks were at the season's peak at this time; and reporting traders' short hedging commitments against such stocks were near the highest level of the year. Open contracts and reported short hedging commitments declined generally thereafter until June 1949 when the new wheat crop began to move.

The annual average of open contracts in corn, aggregating 57,900,000 bushels, was somewhat above the level of the previous year, and the largest since 1935. During the late fall and winter of 1948–49 when corn was being marketed in volume, open contracts and reported short hedging commitments rose to considerably higher levels than during the previous season when the commercial supply was smaller.

In soybeans, the 17,400,000-bushel annual average of open contracts was the largest on record for that community. The bulk of the open interest during the year was held by small traders. During the fall and winter months, however, when the crop was moving in volume, merchants and mills in reporting status made substantial hedging sales in the futures market for price protection on inventory accumulations.

Cotton futures open contracts on all markets averaged approximately 2,400,000 bales during the year, compared with 2,700,000 bales in the previous year. This was a relatively small decrease considering the fact that more than 5,000,000 bales of 1948-crop cotton were placed under loan—the largest amount since 1937. This diminished the potential demand for hedging against price risks. However, the movement of nonloan cotton into commercial channels during the fall and early winter was accompanied by the usual seasonal increase in reported short hedging commitments and in total open contracts.

The higher average level of open contracts in cottonseed oil during the year reflected the increased commitments of reporting hedgers. Reported hedging sales against spot oil inventories averaged more than half the total short interest, while reported long hedges against spot sales commitments were also substantial. The bulk of the long side was held by small traders and large speculators. In lard also, large hedgers accounted for the bulk of short holdings for the greater part of the year, with small traders and large speculators predominating on the long side.

TABLE 3.—*Annual average of open contracts on all contract markets, by commodities, fiscal years 1945–49*

[Average of open contracts at end of each month] [1]

| Commodity | 1945 | 1946 | 1947 | 1948 | 1949 |
|---|---|---|---|---|---|
| Wheat million bushels | 59. 9 | 51. 4 | 38. 1 | 94. 0 | 90. 6 |
| Corn do | 21. 2 | 15. 6 | 36. 3 | 53. 0 | 57. 9 |
| Oats do | 27. 2 | 54. 0 | 44. 9 | 45. 0 | 28. 4 |
| Rye do | 46. 7 | 20. 6 | . 1 | . 8 | 4. 1 |
| Barley do | 1. 8 | 1. 1 | . 2 | (2) | ------ |
| Flaxseed do | . 2 | . 1 | ------ | ------ | (2) |
| Soybeans do | ------ | ------ | ------ | 1. 8 | 17. 4 |
| Grain sorghums do | . 6 | . 3 | . 1 | (2) | (2) |
| Rice, milled million pounds | ------ | ------ | ------ | ------ | 1. 3 |
| Cotton million bales | 1. 6 | 2. 6 | 3. 1 | 2. 7 | 2. 4 |
| Wool tops million pounds | 4. 7 | 5. 6 | 4. 3 | 4. 0 | 5. 6 |
| Butter thousand carlots | ------ | (3) | . 2 | . 7 | . 7 |
| Eggs do | 1. 4 | 3. 6 | 4. 2 | 2. 7 | 2. 5 |
| Potatoes do | . 1 | . 8 | 1. 2 | 1. 6 | . 8 |
| Lard million pounds | (4) | . 4 | 12. 0 | 75. 6 | 87. 8 |
| Cottonseed oil do | 2. 4 | . 3 | 13. 7 | 53. 2 | 91. 7 |
| Soybean oil do | ------ | ------ | (4) | . 1 | ------ |
| Bran thousand tons | . 7 | ------ | 4. 0 | 28. 6 | 19. 4 |
| Shorts do | ------ | ------ | 3. 2 | 17. 0 | 11. 4 |
| Cottonseed meal do | . 1 | . 1 | 7. 2 | 19. 7 | 24. 3 |
| Soybean meal do | . 5 | ------ | 12. 1 | 25. 8 | 26. 1 |

[1] Yearly totals divided by 12, except that, for certain commodities and markets, months prior to inauguration of trading and months in which trading was suspended not included in computations.
[2] Less than 50,000 bushels.
[3] Less than 50 carlots.
[4] Less than 50,000 pounds.

## AUDITS OF BROKERAGE FIRMS

The Segregated Funds Division of the CEA made 751 audits of the books and records of commodity brokers and brokerage firms during the year, compared with 621 during the previous year. The total number of commodity accounts covered by the audits during the year was 28,064, compared with 26,165 in 1947–48. Customers' margin funds and equities held by brokers, as shown by the audits of the recent year, amounted to $122,811,162, compared with $139,234,712 in the preceding year.

The purpose of the segregation audits is to protect the funds and equities of traders on deposit with brokers and brokerage houses registered as futures commission merchants under the act. The act requires all futures commission merchants to segregate and separately account for the funds of their customers, and not to commingle them with the funds of the brokerage firm, nor to use them to extend credit to others.

The audits during the recent year disclosed a wide range of deviations from the segregation provisions and other requirements of the act. In all-too-frequent instances it was found that futures commis-

sion merchants were not keeping the proper amount of customers' funds segregated, were making improper transfers of customers' funds, were commingling customers' funds and trades with house funds and trades, and were not keeping adequate records on customers' trades and positions. Most of these violations were quickly corrected when pointed out, and disciplinary action was not deemed necessary except in a few instances. It is clear from the audit results of the year, however, that continuing intensive audit and compliance work will be necessary to maintain high standards in the handling of commodity traders' accounts and to reduce the number of deviations from the segregation requirements.

## INVESTIGATIONS AND COMPLIANCE ACTIONS

During the year the Compliance and Trade Practice Division processed 38 cases involving alleged or apparent violations of the Commodity Exchange Act, including 5 carried over from the previous year. Thirty-six were disposed of during the year and two were pending at the close of the year.

It was found that certain rules of two contract markets were in conflict with the requirements of the Commodity Exchange Act in such a way that members of these markets in attempting to comply with their own rules might be in violation of the law. One of the exchanges involved has already remedied this situation and the other is in the process of making necessary adjustments.

In five instances persons or firms in apparent violation of the law brought themselves into compliance when deviations were called to their attention. These involved failure to file required reports of trading and market positions, failure to keep necessary records and properly account for customers' funds required to be segregated under the law, and trading in excess of speculative limits.

In three instances persons or firms in apparent violation were permitted to execute stipulations of compliance without the institution of formal administrative action. Two of these violations related to improper execution of customers' orders and the other involved commingling of the funds of the brokerage house with those of customers. In filing a stipulation of compliance the parties involved admit violation of the act and agree to comply fully in the future, with a stipulation that the facts relating to the current violation may be used against them in the event that formal action is taken in connection with any subsequent violation.

Three formal administrative proceedings were initiated under the provision of section 6 (b) of the act looking toward the denial of trading privileges and the suspension or revocation of the registrations of the respondents. In one of these actions a respondent corporation and its responsible officers were charged with cornering the egg market and attempting to manipulate egg prices. Two other formal complaints charged the respective respondents with cheating and defrauding customers. The respondent in one of these cases was also charged with criminal violation of the act. In another criminal case, continued from the previous year, a defendant charged with cheating

and defrauding commodity customers was sentenced to 13 years' imprisonment by the United States District Court for the District of New Jersey.

In 23 cases investigated the files were closed upon finding that no actionable violations occurred. Many instances of this type arise from controversies between customers and their brokers in which customers attempt to recover money lost as a result of trading in the markets. The nature of many such complaints places them outside the scope of the Commodity Exchange Act.

The following sections of the report provide a brief summary of some of the compliance actions and litigation proceedings during the year. The first section reviews cases dealt with in administrative proceedings under the Commodity Exchange Act (CE–A dockets), whereas the second section is concerned with violations prosecuted under the criminal provisions of the act.

## CE–A DOCKETS

CE–A Docket No. 34. *In re General Foods Corp., Charles W. Metcalf, Daniel F. Rice, Daniel F. Rice & Co., Philip R. O'Brien, and Lawrence J. Ryan.*—A complaint of May 26, 1945, charged that the respondents manipulated the price of rye and rye futures on the Chicago Board of Trade in 1944, and cornered the market. After administrative hearings, the Department referee on September 10, 1946, recommended findings which generally substantiated the charges. Oral argument of all parties was held before the judicial officer, whose decision of April 28, 1947, found that all respondents had manipulated rye prices, and that Rice, Rice & Co., O'Brien and Ryan had attempted to corner the market. Sanctions were imposed on all the respondents, denying trading privileges for various periods, and suspending the futures commission merchant and floor-broker registrations involved.

On appeal to the United States Court of Appeals for the Seventh Circuit at Chicago, the court in its decision of October 19, 1948, set aside the order of the judicial officer. The court stated that it was required, under the language of the act, to review the evidence and to vacate the order unless it was supported by a preponderance of the evidence.

The court held that although the respondents acted together to keep rye off the market they did not enter into a conspiracy, but that they acted together in self-preservation to stabilize or peg the price, and not to manipulate, according to the court's interpretation of that term.

CE–A Docket No. 39. *In re Irving Weis & Co., Irving Weis, and Alexander Cycleman.*—Respondents were found to have knowingly carried the accounts of a customer under fictitious names, and violated the record-keeping requirements of the act, for the purpose of concealing the customer's trading operations from the Commodity Exchange Authority. On May 5, 1948, the judicial officer of the Department ordered 10-day suspensions of the respondents' registrations and trading privileges. This order was stayed pending an appeal by the respondents to the United States Court of Appeals for the Second Circuit, but in an opinion of December 7, 1948, the court sustained the order. Under a supplemental order of the judicial officer, the 10-day suspen-

sions of the respondents' registration and trading privileges became effective February 11, 1949, with certain modifications permitting the firm to carry unchanged or to liquidate customers' positions during the 10-day period, but not to trade for its house account nor to accept new business from customers.

CE–A Docket No. 45. *In re Garnac Grain Co., Inc., Fred Hediger, Jean Jacques Pasche, H. R. Schmid, George Lulie, and Edward Minder.*—A complaint of March 24, 1948, charged that the respondents acted as a futures commission merchant without registration, failed to file required reports, bucketed customers' orders, and kept false records. After hearings the trading privileges of the company and three of its officers were ordered denied for a 5-day period, effective June 19, 1949. The registration of the company as a futures commission merchant was suspended for the same period. Additional charges of deceit and fraud in the handling of a customer's account were dropped as a result of unrefuted testimony at the hearing that the customer involved was kept informed of the true facts and approved the transactions in question. The complaint against respondents Pasche and Minder was dismissed.

CE–A Docket No. 47. *In re Ralph W. Moore.*—A complaint of May 27, 1948, charged that Moore failed to submit required reports on speculative transactions and positions in grain, cotton, and lard futures, and attempted to manipulate lard prices by means of false reports delivered for transmittal in interstate commerce. In hearings before the referee, a motion of the respondent for dismissal, and another for a bill of particulars, were denied. Hearings were completed on April 26, 1949. The proposed findings of fact and conclusions to be submitted by the Government and the respondent were not due until after the close of the year.

CE–A Docket No. 48. *In re Great Western Distributors, Inc., Nathaniel E. Hess, Charles S. Borden, Thomas F. Haynes, and Hartley L. Harris.*—A complaint of July 12, 1948, charged that the respondent corporation, having attained a dominant and controlling position in the December 1947 egg futures market in Chicago, and having obtained control of the supply of deliverable eggs in Chicago and surrounding area, attempted to manipulate the price of the commodity, and cornered the commodity, in violation of sections 6 (b) and 9 of the Commodity Exchange Act. Respondents' answer to the complaint was received December 22, 1948; and a hearing before the referee in the case was scheduled for July 26, 1949.

CE–A Docket No. 49. *In re Charles B. Grady.*—A complaint of August 31, 1948, charged the respondent with falsely confirming to customers the execution of grain futures transactions, converting customers' funds to his own use, and acting as futures commission merchant without registration. Hearings before the referee in the case were held on May 26, 1949. Proposed findings of fact and conclusions to be submitted by the Government and the respondent were not due until after the close of the year. (See also under section on criminal cases.)

CE–A Docket No. 50. *In re Alvis R. Davis.*—On May 23, 1949, a complaint and notice of hearing charged the respondent with falsely confirming to customers the execution of trades in commodity futures

and converting customers' funds to his own use. The respondent waived a hearing, and by an order of June 21, 1949, was denied trading privileges on all contract markets except in connection with transactions for his own account in which no customers are involved.

## CRIMINAL CASES

On October 8, 1948, a criminal information based on investigations by the CEA was filed in the United States District Court, Chicago, Ill., charging Charles B. Grady with willfully making false reports to customers and converting customers' funds to his own use, thereby deceiving, cheating, and defrauding them, falsely representing himself as a futures commission merchant, and acting as such without registration. On December 7, 1948, the court overruled a motion by the defendant to dismiss. The date of the trial, originally set for January 21, 1949, was subsequently extended to October 10, 1949.

On March 11, 1949, Donald Dawes, alias James J. McCloud, was sentenced to 13 years in prison for operating a bucket shop and cheating and defrauding customers in violation of the Commodity Exchange Act. Sentence was imposed by the United States District Court at Newark, New Jersey.

## SPECULATIVE LIMITS NEEDED FOR ADDITIONAL COMMODITIES

Events during the year showed that specific limits on speculative transactions by large traders in eggs, soybeans, wool tops, and cottonseed oil are urgently needed. Such limits are now in force for grains and cotton, having been established before the war by the Commodity Exchange Commission, consisting of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General.

Large speculative holdings in egg futures have contributed to recurring difficulties in the Chicago egg futures market. Soybeans, which were not under the act when the speculative limits for grain were originally fixed by the Commission, have now become one of the leading futures-trading commodities, with speculative activity at times exceeding that in wheat and corn. The effect of heavy speculation in wool-top futures was pointed out in an earlier section of this report. Large futures holdings have also caused erratic price fluctuations in cottonseed oil.

In grain and cotton, the work incident to the preparation of evidence and the holding of public hearings before the Commission was done in 1938–40 when the funds for the enforcement of the act were larger than at present. The work was interrupted by the war, and since then has been postponed by the budgetary situation and the necessity of dealing first with the most urgent of the existing enforcement requirements. Resumption of the hearings, looking toward the fixing of limits for the various commodities subject to large speculative operations, should provide a major safeguard against excessive speculation and manipulative tendencies in the markets affected.

U. S. GOVERNMENT PRINTING OFFICE: 1949

For sale by the Superintendent of Documents, U. S. Government Printing Office
Washington 25, D. C. - Price 10 cents

# Report of the Administrator

## of the

# Commodity Exchange Authority

## 1950



UNITED STATES DEPARTMENT OF AGRICULTURE

Commodity Exchange Authority

# Report of the Administrator of the Commodity Exchange Authority, 1950

United States Department of Agriculture,
Commodity Exchange Authority,
*Washington, D. C., October 20, 1950.*

Hon. Charles F. Brannan,
*Secretary of Agriculture.*

Dear Mr. Secretary:

I submit herewith a report of the work of the Commodity Exchange Authority for the fiscal year ended June 30, 1950.

Sincerely yours,

J. M. Mehl,
*Administrator.*

## CONTENTS



## COMMODITY FUTURES TRADING IN 1949–50

The facilities of the 18 commodity futures exchanges operating under the Commodity Exchange Act were utilized in the pricing and marketing of farm products to about the same extent in the year ended June 30, 1950, as in the preceding year. The total number of futures transactions and the total dollar value of trading in the 19 commodities under regulation were approximately the same as in the previous year. The number of traders in the markets did not change greatly.

There was a striking growth of activity during the year in the futures markets for soybeans, oils, and oilmeals. Soybean futures trading on the Chicago Board of Trade far exceeded all previous records. Futures trading became an important factor in soybean oil for

the first time. Trading in cottonseed oil futures on the principal market, the New York Produce Exchange, was at the highest level in 21 years on record; and the volume in both cottonseed meal and soybean meal on the Memphis market was considerably larger than in the previous year.

The dollar value of futures trading in all regulated commodities was estimated at 32.4 billion dollars for the year. (See table 9.) This compared with 33.4 billions in 1948–49, and an average of 20.4 billions for the 10-year period, 1940–49.

The 1949–50 dollar value of futures trading in regulated commodities was nearly twice the value of all transactions in stocks and bonds on the 16 registered securities exchanges. The value of trading in the latter was 17.3 billion dollars for the year.

Of the total dollar value of futures trading in regulated commodities in 1949–50, trading in soybeans exceeded that in any other commodity, accounting for 29 percent, compared with 12 percent in 1948–49. Wheat futures trading accounted for 28 percent of the total, compared with 30 percent in 1948–49, other grains 13 percent compared with 20 percent, cotton 26 percent compared with 31 percent, and all other commodities 4 percent compared with 7 percent.

The total number of futures transactions, i. e., purchases and sales in terms of contract units, was estimated at 7,115,000 for the year. This compared with 7,273,000 transactions in 1948–49, or a decrease of 2.2 percent, but was an increase of 23.2 percent over the average for the 10-year period, 1940–49.

## RÉSUMÉ OF REGULATORY ACTIVITIES

The Commodity Exchange Authority kept close watch on the increased trading in commodity futures touched off by the Korean war. Two published reports pointed out the inflationary effect on commodity prices resulting from speculative trading based on low margin payments as permitted under exchange rules.

Special investigations were made of the heavily increased trading and sharp price fluctuations in soybean futures in the spring and summer of 1950. These investigations showed that most of the trading was speculative.

The congested market situation and suspension of trading in the 1949 October egg future on the Chicago Mercantile Exchange was investigated. Early in the delivery month, the Commodity Exchange Authority reminded the exchange of its responsibility under the act to prevent price manipulation and corners, and in a subsequent published report pointed to the need for contract delivery differentials for grades and locations, in line with differentials in the commercial cash market.

In connection with an earlier tight market situation in egg futures, the presentation of evidence against a corporation and its officers charged with cornering the Chicago egg market in an attempt to manipulate prices was completed. The referee's report in the case sustained the Government's charges.

For cheating and defrauding customers in violation of the Commodity Exchange Act a Chicago broker was sentenced to prison by a Federal court. The Judicial Officer of the Department suspended the

registration of members of a Chicago brokerage firm, and ordered their trading privileges denied, for making false bookkeeping entries, commingling customers' funds with those of the firm, and other violations. In two administrative proceedings, charging willful evasion of CEA reporting requirements by large traders, the referee recommended denial of trading privileges.

Evasions and violations of the act are uncovered through analysis of daily reports of exchange clearing members and large traders, accounting examinations of the books of commodity brokerage firms, special surveys and investigations of trades and accounts, observation of trading on the floor, and complaints received from individual traders and others.

In compliance with CEA requirements, clearing members of commodity exchanges continued to make daily reports on trading and on open contracts and deliveries, and large traders reported their futures operations and cash commodity positions. Approximately 500 exchange clearing members were in daily reporting status to the CEA throughout the year, and the average number of large traders reporting daily was 562.

Data from the daily reports, when compiled and analyzed, provide essential information for enforcement of the act—day-to-day information on the volume of trading in the markets, the size of futures holdings, the activity in the large accounts, and the effect of their trading on the market. Examination of the daily reports provides "leads" on evasions and violations of the act, and is a principal means of enforcing the existing limits on speculation by large traders in cotton and grains.

Other infractions were revealed by the market-wide surveys which the CEA made at various dates of all accounts in soybean futures on the Chicago Board of Trade, egg futures on the Chicago Mercantile Exchange, and soybean oil futures on the New York Produce Exchange.

Additional information was obtained in complaints received during the year from traders, brokers, hedgers, and others who alleged that they had been unfairly dealt with or cheated in the market. Experience shows that many such complaints come from individuals who have lost money in the market, not because of unlawful practices but because of unwise decisions of the traders themselves. All complaints are carefully investigated, however, because in some instances they do reveal cases of cheating and fraud.

Special surveys of floor trading practices were made on the futures markets for cottonseed meal and soybean meal conducted by the Memphis Merchants Exchange Clearing Association, and on the Chicago Open Board of Trade. A survey begun the previous year of floor trading practices on the New York Produce Exchange was completed. The purpose of these surveys is to secure compliance with provisions of the act relating to the execution of customers' orders on the floor, and the registration of futures prices.

The continuing regulatory work included the annual registration of futures commission merchants and floor brokers as required under the act. During the year the applications of 628 futures commission merchants and 783 floor brokers were approved for registration. All changes in the rules and regulations of the various markets were

examined to determine whether such changes were in conformity with provisions of the act, and to enforce standards which the exchanges must meet to maintain their existing designations as contract markets.

The CEA audited the books and records of each of the 628 commodity brokers and brokerage firms registered under the act as futures commission merchants. These audits were effective in disclosing instances of improper handling of commodity customers' funds, and also in furnishing leads on questionable trading practices.

To a considerable extent, trading practices which are violations of the Commodity Exchange Act have been made violations of exchange rules. There were many instances during the year in which concerted action by exchange officials and CEA representatives was helpful in preventing certain types of fictitious transactions, in heading off tight market situations in expiring futures, and in disseminating information to the trade concerning CEA regulations, or amendments made in exchange rules for the purpose of bringing trading practices into compliance with provisions of the act. By voluntary arrangement, representatives of the CEA regularly attended the business-conduct committee meetings of the larger exchanges throughout the year.

## COMMODITY SPECULATION AT THE OUTBREAK OF THE KOREAN WAR

In the last days of the fiscal year the outbreak of the Korean war brought an influx of speculative buying in the futures markets which accelerated the rise in prices of war-sensitive commodities.

Trading in soybeans, already at a very high level, expanded still further after June 24, and other important commodities were quickly affected. As shown in table 1, the soybean futures volume of the Chicago Board of Trade in the 4 weeks preceding the war was 286 million bushels; in the 4 weeks following it was 367 million bushels, an increase of 28.4 percent. The volume in wheat increased from 200 million bushels to 357 million, up 78.6 percent. Trading in cottonseed oil on the New York market, already at a high level of activity, increased 11 percent; the volume in wool tops was up 44 percent, and that in lard at Chicago nearly 100 percent.

Futures prices of most of these commodities increased sharply. In a period of a little over 1 month from the start of the war, futures prices of soybeans, cottonseed oil, and lard advanced 25 percent, 31 percent, and 41 percent, respectively. These increases are reflected in table 2. Price increases in wheat, corn, and eggs were much less pronounced, but for cotton and wool tops the advances were very substantial.

In a report of July 31, the CEA pointed out that a very large part of this increased trading, so closely connected with rising prices, was accounted for by speculators not directly connected with the marketing or processing of actual commodities.

TABLE 1.—*Volume of futures trading in selected agricultural commodities, 4-week period May 29 to June 24, 1950, compared with 4-week period June 26 to July 22, 1950*

| Commodity | Market | Volume: May 29 to June 24 | Volume: June 26 to July 22 | Percentage of increase (+) or decrease (−) |
|---|---|---|---|---|
| Wheat | Chicago Board of Trade | 200,047,000 bushels | 357,290,000 bushels | +78.6 |
| Soybeans | do | 285,947,000 bushels | 367,179,000 bushels | +28.4 |
| Corn | do | 118,088,000 bushels | 165,430,000 bushels | +40.1 |
| Lard | do | 185,600,000 pounds | 367,800,000 pounds | +98.2 |
| Cotton | New York Cotton Exchange | 4,000,200 bales | 4,371,500 bales | +9.3 |
| Cotton | New Orleans Cotton Exchange | 1,626,200 bales | 1,546,100 bales | −4.9 |
| Eggs | Chicago Mercantile Exchange | 3,697 carlots [1] | 8,431 carlots [1] | +128.0 |
| Cottonseed oil | New York Produce Exchange | 517,680,000 pounds | 577,080,000 pounds | +11.5 |
| Wool tops | Wool Associates of the New York Cotton Exchange. | 4,230,000 pounds | 6,095,000 pounds | +44.1 |

[1] 14,400 dozen per car.

TABLE 2.—*Futures prices of selected agricultural commodities on last trading day before Korean attack compared with prices on July 28, 1950*

| Commodity | Future | Market | Prices | | Percentage of increase |
|---|---|---|---|---|---|
| | | | June 23, or June 24, 1950 | July 28, 1950 | |
| Wheat | December | Chicago Board of Trade | \$2.16¾ per bushel [1] | \$2.31⅛ per bushel | 6.6 |
| Soybeans | November | do | \$2.10 per bushel [1] | \$2.64 per bushel | 25.7 |
| Corn | September | do | \$1.45⅛ per bushel [1] | \$1.52⅜ per bushel | 5.0 |
| Lard | do | do | \$0.1105 per pound [1] | \$0.15575 per pound | 41.0 |
| Cotton | December 1950 | New York Cotton Exchange | \$0.3265 per pound [2] | \$0.3888 per pound | 19.1 |
| Cottonseed oil | October | New York Produce Exchange | \$0.1421 per pound [2] | \$0.1870 per pound | 31.6 |
| Eggs | September | Chicago Mercantile Exchange | \$0.3790 per dozen [2] | \$0.3995 per dozen | 5.4 |
| Wool tops | October | Wool Associates of New York Cotton Exchange. | \$1.9900 per pound [2] | \$2.305 per pound | 15.8 |

[1] Closing price of June 24, 1950.
[2] Closing price of June 23, 1950.

A survey was made as of July 21, 1950, of all purchases and sales in the most heavily traded wheat and soybean futures on the Chicago Board of Trade, the December future in the case of wheat, and the November future for soybeans. As reflected in table 3, it was found that more than 8 in every 10 bushels of December wheat and more than 9 in every 10 bushels of November soybeans bought and sold on July 21 were bought and sold by speculators. In other words, less than 20 percent of the total trading in December wheat and less than 10 percent of the trading in November soybeans was reported as hedging.

The proportion of speculative trading found in the market of July 21, 1950, corresponded roughly with the results of earlier CEA surveys of highly speculative markets. Wheat futures trading on the Chicago Board of Trade as of September 18, 19, and 20, 1947, was found to be 80 to 90 percent speculative, and cotton futures trading on the New Orleans Cotton Exchange in the period May 17–22, 1948, was approximately 95 percent speculative.

The proportion of speculation versus hedging, as shown in table 3, is based primarily upon the classification of trading accounts by brokerage firms. More detailed investigation usually shows that some accounts classified as those of hedgers contain speculative transactions. Thus it is likely that a greater proportion of the trading is actually speculative than is indicated by the figures cited here.

TABLE 3.—*November soybean and December wheat futures: Total volume of trading and proportion of trading classified as speculative and hedging, Chicago Board of Trade, July 21, 1950*

| Commodity | Total volume of trading | Proportion of trading classified as— | | | |
|---|---|---|---|---|---|
| | | Speculative | | Hedging | |
| | | Purchases | Sales | Purchases | Sales |
| | *Bushels* | *Percent* | *Percent* | *Percent* | *Percent* |
| Soybeans | 7, 463, 000 | 96. 5 | 90. 7 | 3. 5 | 9. 3 |
| Wheat | 9, 191, 000 | 86. 6 | 81. 0 | 13. 4 | 19. 0 |

## MARGIN REQUIREMENTS OF THE EXCHANGES

The margin requirements which the commodity exchanges had in effect at the outbreak of the Korean war were at low levels, enabling traders to finance speculative transactions with relatively small down payments. This was a contributing factor in the upsurge of speculative activity and attendant rise in prices.

Margin rates for trading in commodity futures are fixed by the various exchanges and are not subject to Federal regulation. In this respect commodity trading differs from trading in stocks, in which the required amount of margin is established by the Federal Reserve Board, and currently is a uniform minimum of 50 percent of the value of the stock.

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The minimum margins for speculative commodity trading required by the exchanges at the end of June ranged from 6 to 13 percent for all but one of the commodities shown in table 4. For example, the minimum speculative margin for wheat futures trading on the Chicago Board of Trade as of June 30, 1950, was 15 cents a bushel. The dollar amount required to buy one July wheat futures contract of 5,000 bushels was $750. This amount was 6.9 percent of the value of the July contract. (The contract value was approximately $10,900—5,000 bushels multiplied by $2.18½, the June 30 closing price of the July future.)

With speculative commodity margins as low as those prevailing at the end of June, traders attracted by the prospect of profits from wartime price rises could buy large amounts of futures by risking relatively small amounts of money.

As pointed out in last year's annual report, when traders enter a speculative market many tend to buy the largest amount of futures their available funds will margin. If, at a margin rate of 20 percent, a given amount of money will buy 1 futures contract, at a margin rate of 10 percent the same amount will buy 2 contracts, and at a rate of 5 percent it will buy 4 contracts. Thus, the lower the margin the greater the inducement to buy in large amounts, and the greater the potential effect on prices.

With the price advances that occurred in important commodities during the first weeks of the Korean war, the profits realizable on speculative purchases in futures equalled or exceeded the amounts required to margin the trades.

For example, in the first 5 weeks of the war the price of the December wheat future at Chicago advanced 14⅜ cents a bushel (see table 2) compared with a minimum speculative margin of 15 cents a bushel. Thus, the possible profit on one long contract in the period was $718.75, against a minimum requirement of $750 to margin the contract, or a profit of nearly 100 percent.

In soybeans, the minimum margin requirement would have yielded a profit during the same period of 270 percent. The November soybean future advanced 54 cents a bushel in 5 weeks, against a minimum margin of 20 cents a bushel on that future, or a possible profit of $2,700 on one long November contract financed with a margin requirement of $1,000.

Similarly, speculators buying cotton or cottonseed oil futures at minimum margins just before or at the outset of the Korean war would have had profit positions in 5 weeks of more than 300 percent, in wool tops approximately 150 percent, and in lard approximately 450 percent.

Low margin rates were also advantageous to traders inclined to use profits from initial purchases to finance additional speculative buying. Speculation feeds on speculation. By mid-July the increase in volume of futures trading and the effect on prices of war-sensitive commodities was sharply pronounced.

TABLE 4.—*Speculative margins: Minimum initial margin required by exchanges, and margin as percent of closing price of near future, for specified commodities and markets, June 30, 1950*

| Commodity | Market | Unit | Contract | Margin per— | | Price per— | | Margin as percent of price [1] |
|---|---|---|---|---|---|---|---|---|
| | | | | Unit | Contract | Unit | Contract | |
| | | | | *Dollars* | *Dollars* | *Dollars* | *Dollars* | |
| Wheat | Chicago Board of Trade | Bushel | 5,000 bushels | 0. 15 | 750 | 2. 18½ | 10, 925 | 6. 9 |
| Do | Kansas City Board of Trade | do | do | . 15 | 750 | 2. 18¾ | 10, 938 | 6. 9 |
| Do | Minneapolis Grain Exchange | do | do | . 15 | 750 | 2. 33 | 11, 650 | 6. 4 |
| Corn | Chicago Board of Trade | do | do | . 12 | 600 | 1. 49⅝ | 7, 481 | 8. 0 |
| Oats | do | do | do | . 07 | 350 | . 83½ | 4, 175 | 8. 4 |
| Rye | do | do | do | . 15 | 750 | 1. 31⅝ | 6, 581 | 11. 4 |
| Soybeans | do | do | do | . 40 | 2, 000 | 3. 12⅛ | 15, 606 | 12. 8 |
| Rice, milled | New York Mercantile Exchange | Cwt | 400 cwt | 1. 25 | 500 | 9. 30 | 3, 720 | 13. 4 |
| Cotton | New York Cotton Exchange | Pound | 100 bales | . 03 | 1, 500 | [2]. 337 | 16, 850 | 8. 9 |
| Do | New Orleans Cotton Exchange | do | do | . 02 | 1, 000 | [2]. 333 | 16, 650 | 6. 0 |
| Wool tops | Wool Associates of New York Cotton Exchange. | do | 5,000 pounds | . 20 | 1, 000 | 2. 05½ | 10, 275 | 9. 7 |
| Butter | Chicago Mercantile Exchange | do | 20,000 pounds | . 04 | 800 | . 57 | 11, 400 | 7. 0 |
| Eggs | do | Dozen | 14,400 dozen | [2]. 035 | 500 | . 376 | 5, 414 | 9. 3 |
| Potatoes | New York Mercantile Exchange | Cwt | 500 cwt | . 48 | 240 | 2. 18 | 1, 090 | 22. 0 |
| Cottonseed oil | New York Produce Exchange | Pound | 60,000 pounds | [2]. 013 | 800 | [2]. 158 | 9, 480 | 8. 2 |
| Soybean oil | do | do | do | [2]. 013 | 800 | [2]. 124 | 7, 440 | 10. 5 |
| Lard | Chicago Board of Trade | do | 40,000 pounds | . 01 | 400 | [2]. 114 | 4, 560 | 8. 8 |
| Bran | Kansas City Board of Trade | Ton | 120 tons | 6. 00 | 720 | 45. 85 | 5, 502 | 13. 1 |
| Shorts | do | do | do | 6. 00 | 720 | 52. 15 | 6, 258 | 11. 5 |
| Cottonseed meal | Memphis Merchants Exchange Clearing Association. | do | 100 tons | 5. 00 | 500 | 67. 90 | 6, 790 | 7. 4 |
| Soybean meal | do | do | do | 5. 00 | 500 | 84. 90 | 8, 490 | 5. 9 |

[1] Figures rounded to nearest tenth of 1 percent.
[2] Figures rounded to the nearest thousandth of a dollar.

On July 19, the Defense Production Act of 1950 was introduced in the Congress, providing, among other measures, for the regulation of margins under the Commodity Exchange Act. Over the next few days leading commodity exchanges announced increases in speculative margin rates for important commodities, including wheat, soybeans, cotton, cottonseed oil, and lard. These increases became effective July 26–28. In August, the margin control provisions of the Defense Production Act were defeated in Congress, leaving responsibility for the determination of speculative margins in the hands of the exchanges.

Some of the increases in speculative margins adopted by the exchanges after the introduction of the control legislation were impressive as compared with previous levels. But in relation to the value of futures contracts at prevailing prices, most of them were not substantial. For the five commodities shown in table 5, the level after the increases was still only 10.2 to 15.5 percent of contract values.

TABLE 5.—*Speculative margins: Minimum initial amount per futures contract required by exchanges, and margin as percent of contract value, for specified commodities and markets, July 21 and July 28, 1950*

| Commodity | Market | Margin per contract | | Margin as percent of contract value[1] | |
|---|---|---|---|---|---|
| | | July 21 | July 28 | July 21 | July 28 |
| | | *Dollars* | *Dollars* | *Percent* | *Percent* |
| Wheat | Chicago Board of Trade | 750 | 1, 250 | 6. 4 | 11. 0 |
| Soybeans | do | 1, 000 | 1, 500 | 7. 9 | 11. 4 |
| Cottonseed Oil | New York Produce Exchange | 800 | 1, 200 | 7. 4 | 10. 2 |
| Lard | Chicago Board of Trade | 400 | 800 | 7. 1 | 12. 9 |
| Cotton | New York Cotton Exchange | 2, 000 | 3, 000 | 10. 7 | 15. 5 |
| Do | New Orleans Cotton Exchange | 1, 500 | 3, 000 | 8. 0 | 15. 5 |

[1] Based on approximate closing prices of near futures, excluding July 1950 futures.

Margin rates at the levels adopted on July 26–28, even if continued by the exchanges, would not be effective in restraining maximum speculation in periods of market excitement. Margin increases adopted by exchanges after large numbers of traders have already become heavily involved in the market are too late to avert sharp distortion of prices of near futures—as in the case of the July soybean future—thus directly affecting prices of cash commodities.

As pointed out in previous annual reports, speculative trading on low or nominal margins played an important part in the collapse of the cotton market in October 1946, the boom in grain prices in 1947, and the successive market breaks in February 1948 and February

1949. In several of such market crises, as in the Korean war market, when the exchanges finally took action on margins the increases were too late or too limited to be effective.

## SPECULATIVE TRADING IN SOYBEANS

The 1949 soybean crop was 222 million bushels. The volume of futures trading in soybeans on the Chicago Board of Trade during the year was 3.5 billion bushels, or more than 15 times the size of the crop. The production of soybeans, in physical volume, was about one-fifth the size of the wheat crop, and less than one-tenth the size of the corn crop. Yet the volume of futures trading in soybeans on the Chicago Board of Trade was greater than in wheat, corn, or any other grain.

In the fall of 1949 when the soybean crop was being marketed in heaviest volume, and prices to farmers were at the lowest levels of the year, averaging about $2 a bushel, the speculative volume in soybeans was already large in relation to hedging needs. The biggest market, however, came in the spring and early summer of 1950, when all but a relatively small part of the crop had left farmers' hands, and when supplies in commercial channels and hedging contracts in the futures market were at relatively low levels.

The soybean volume in the March–July period, amounting to 1.9 billion bushels, was 40 percent greater than in the October–February period. Throughout the March–July period speculative trading in soybeans mounted while the holdings of hedgers as reported to the CEA showed a continuous seasonal decline. At the end of June the trading volume in soybean futures was 15,000,000 to 20,000,000 bushels a day, which was more than twice the total supply of cash beans in farmers' hands at that time, and about three times the total commercial stocks at terminal markets.

This heavy trading in soybeans was accompanied by sharply rising prices. From March 1 to July 17 the July future advanced more than $1 a bushel, selling at $3.45½ on the latter date.

During the March–July period the July future reached the maximum fluctuation limit of 10 cents a bushel on 18 different days, advancing the maximum on 8 days, and dropping the limit on 10 other days. In the 120 trading days from March 1 to July 22, when the July future expired, there were 83 days on which the daily high-low range of prices for the July future was 4 cents a bushel or more.

There were widespread complaints from the trade, and particularly soybean processors, that the market was dominated by speculative trading. Processors complained that the sharp rise in old-crop futures prices, far out of line with new-crop months, bore little relation to actual supply and demand conditions in the soybean industry, and that the erratic course of old-crop futures prices rendered the market dangerous for hedging purposes.

The CEA made 3 special surveys of soybean futures on the Chicago Board of Trade during this period, and on each occasion the market was found to be highly speculative.

One such survey covered all accounts as of March 27, 1950. It showed 3,096 traders in the market. Of every 100, 87 were speculators, and 13 were traders reporting their transactions as hedging.

As reflected in table 6, speculators held the bulk of the open contracts on both sides of the market—long and short. Of total open commitments long, amounting to 65,458,000 bushels, speculators held 50,800,000 bushels, or more than three-fourths of the total. Speculators also held 40,084,000 bushels short, or nearly two-thirds of total short commitments.

Speculative holdings thus far outweighed the needs of hedgers whose commitments were in a considerable minority on both sides of the market. The need for a large preponderance of speculative trading was even less apparent in view of the fact that hedgers' long positions to some extent offset short hedging commitments. Total long hedging positions on March 27 amounted to about 58 percent of total short hedging commitments.

A second CEA survey of all accounts in soybean futures, as of June 30, showed that the market was still predominantly speculative. With the expiration of the heavily traded May future, the number of accounts and amount of commitments had declined, but the general composition of the market was substantially unchanged.

TABLE 6.—*Soybean futures: Number of traders and amount of commitments, classified as speculative and hedging, Chicago Board of Trade, Mar. 27, 1950*

| Classification | Traders | | Quantity of commitments | | Percentage of commitments | |
|---|---|---|---|---|---|---|
| | | | Long | Short | Long | Short |
| | *Number* | *Percent* | *1,000 bushels* | *1,000 bushels* | *Percent* | *Percent* |
| Speculative | 2, 688 | 86. 8 | 50, 800 | 40, 084 | 77. 6 | 61. 2 |
| Hedging | 408 | 13. 2 | 14, 658 | 25, 356 | 22. 4 | 38. 8 |
| Total | 3, 096 | 100. 0 | 65, 458 | 65, 440 | 100. 0 | 100. 0 |

In the June 30 survey there were 2,330 traders in the market, of whom 84 in every 100 were speculators. (See table 7.) In amount of commitments, speculators again held more than three-fourths of total long positions, and nearly two-thirds of total short. Again, speculative holdings were greatly in excess of the requirements of hedgers; and the aggregate of hedgers' long positions was equal to more than half the total short commitments of hedgers.

The predominantly speculative character of the market was further reflected by a special survey as of July 21 which covered soybean futures *trading*, i. e., purchases and sales during the day, rather than soybean futures *holdings* (commitments) at the close of the day, as was the case in the surveys of March 27 and June 30. This survey covered all purchases and sales on July 21 in the November soybean contract, the future then being traded in heaviest volume. The total purchases of November soybean futures on July 21 amounted to 7,463,000 bushels, of which 96.5 percent was purchased by speculators. Sales by speculators were 90.7 percent of total sales. (See table 3.)

TABLE 7.—*Soybean futures: Number of traders and amount of commitments, classified as speculative and hedging, Chicago Board of Trade, June 30, 1950*

| Classification | Traders | | Quantity of commitments | | Percentage of commitments | |
|---|---|---|---|---|---|---|
| | | | Long | Short | Long | Short |
| | *Number* | *Percent* | *1,000 bushels* | *1,000 bushels* | *Percent* | *Percent* |
| Speculative | 1, 968 | 84. 5 | 31, 518 | 24, 733 | 78. 8 | 61. 9 |
| Hedging | 362 | 15. 5 | 8, 473 | 15, 260 | 21. 2 | 38. 1 |
| Total | 2, 330 | 100. 0 | 39, 991 | 39, 993 | 100. 0 | 100. 0 |

The trend toward uncontrolled speculation in soybean futures before and after the outbreak of the Korean conflict was aggravated by the low margin requirements on speculative trading which the Chicago Board of Trade continued throughout the year. In early March the cash payment required under exchange rules for speculative trading in soybeans was already at the low level of 20 cents a bushel. Yet, on March 13, in the face of mounting speculative activity, the exchange reduced the requirement to 15 cents a bushel, or from 8.1 percent to 6.1 percent of the then-prevailing purchase price of the near future, as shown in table 8. Over the next few weeks the trading volume increased sharply. In the period from March 13 to July 22, the exchange made five separate increases and decreases in soybean margins, but none of the increases was very substantial in relation to the rising level of prices.

TABLE 8.—*Speculative margins, soybean futures: Minimum initial margin requirements, and margin as percent of price of near future, Chicago Board of Trade, Nov. 5, 1948, to July 22, 1950*

| Period effective | Minimum initial margin on speculative transactions | Margin as percent of price [1] on first date effective |
|---|---|---|
| | | *Percent* |
| Nov. 5, 1948 to Mar. 11, 1950. | 20 cents per bushel, all futures | [2] 8. 1 |
| Mar. 13, to Apr. 5, 1950 | 15 cents per bushel, all futures | 6. 1 |
| Apr. 6 to Apr. 26, 1950 | 20 cents per bushel, all futures | 7. 6 |
| Apr. 27 to May 3, 1950 | 30 cents per bushel, May and July futures. | 10. 4 |
| | 20 cents per bushel, November and January futures. | 9. 2 |
| May 4 to July 21, 1950 | 40 cents per bushel, May and July futures. | 13. 0 |
| | 20 cents per bushel, November, January, and March futures. | 9. 0 |
| July 22, 1950— | 30 cents per bushel, all futures | 12. 0 |

[1] Based on approximate closing prices of near futures.
[2] Margin as percent of closing price on Mar. 11, 1950, last trading day prior to change effective Mar. 13, 1950. On Nov. 5, 1948, margin was 7.8 percent of closing price of near future.

Even the margin rates shown above were not applied to all speculators in the soybean market. The exchange-established margins are not applicable to members of the exchange who execute or clear their own speculative transactions. There are also many instances where the established rates are not required of traders to whom they supposedly apply.

## CHINESE TRADERS IN SOYBEANS

In the survey of all accounts in soybean futures on the Chicago Board of Trade as of March 27, it was found that speculative buyers with Chinese names were unusually active in the market. Thirty-one such accounts held 3,145,000 bushels long, with negligible short commitments.

Day-to-day surveillance during the following months of the accounts with Chinese names showed a heavy increase in speculative buying, particularly in the July future. As of May 31, 49 speculative accounts with Chinese names held 5,961,000 bushels of July contracts long, or approximately one-third the total long holdings in the future, and on June 30 such accounts held 6,986,000 bushels long, or nearly one-half the total.

Speculation in futures by Chinese is not new, but on no previous occasion has the Commodity Exchange Authority found Chinese holding so large a proportion of the open contracts in a commodity. Some of the accounts were held by Chinese residing in the United States and some by Chinese abroad. There is no prohibition, of course, against foreign nationals trading in commodity futures on United States futures markets.

In this instance, the largest of the Chinese accounts was carried by a Hong Kong commission firm. In the latter part of April this firm bought and held 2,565,000 bushels in the July future. The price of the future rose sharply when these purchases were being made, and on April 24, the date of the largest purchase—amounting to 1,365,000 bushels—the July future advanced the full 10-cent permissible limit.

From information subsequently developed, it appeared that the 2,565,000 bushels purchased by the Hong Kong commission firm were distributed among the accounts of 14 customers under circumstances pointing to common control and possible common ownership. These accounts retained their purchases unchanged until delivery began on the July future. They then took delivery of 2,150,000 bushels of actual beans of which 650,000 bushels were redelivered. The remaining quantity of 1,500,000 bushels delivered to these Chinese speculators was retained in Chicago elevators and amounted to approximately one-half the actual soybeans delivered in settlement of the July future.

The transactions in these accounts were summarized in a report made public on August 10, 1950.

## ENFORCEMENT OF SPECULATIVE LIMITS

The existing limits on speculation by large traders in cotton and grains (not including soybeans) were effectively enforced during the

year. Preparatory work was done looking toward the establishment of limits on speculative trading in additional commodities.

The purpose of these limits, first established for grains in 1938 and for cotton in 1940, is to prevent excessive speculation by large traders and resultant unwarranted price fluctuations. In wheat, for example, the maximum limit on daily speculative purchases or sales and on the net speculative position of any person is 2,000,000 bushels, and in cotton 30,000 bales, in all futures combined on one market. There are certain exceptions for spreads and straddles.

There were 11 instances in grains during the year, and 2 in cotton, in which large traders built up speculative positions in excess of the permissible limits. These infractions were promptly detected, and in each instance the trader concerned brought himself into compliance immediately when warned of the violation. (Except in cases of willful violation, formal charges against a trader found exceeding the speculative limits may be held in abeyance provided the trader brings his account into compliance immediately upon notification.)

Semimonthly checks were also made to determine how many traders were holding speculative positions just below the limits.

In one wheat futures market there were 18 instances on the dates of the semimonthly checks in which traders held positions within 100,000 bushels of the 2,000,000-bushel limit. In corn there were 10 such instances, and in oats 25. In rye, with a speculative position limit of 500,000 bushels, there were 5 instances in which traders held positions within 25,000 bushels of the limit. In cotton there were 17 instances on one market in which traders held speculative positions within 1,000 bales of the 30,000-bale speculative limit for that commodity.

It seems apparent from these figures that the enforcement of the speculative limits is a strong deterrent to excessive speculation by large traders. In view of the frequency of positions just below the permissible limits, an increase in the number of violations might be expected if any relaxation in the day-to-day surveillance of large-trader reports were permitted.

## THE OCTOBER 1949 EGG FUTURE

In October 1949 the CEA began an investigation of egg futures trading on the Chicago Mercantile Exchange following abnormal price movements in the October future, and trade complaints of manipulative practices. The investigation showed that speculative operations distorted egg futures prices in October 1949, and disrupted orderly marketing of the commodity, causing financial losses to dealers and other traders in the market.

In early September 1949 a small number of traders held a large proportion of the long contracts in the October egg future. Most of the small speculators were on the short side, apparently expecting lower prices. The holdings in accounts reported as hedging were also predominantly short. Although egg production in the fall of 1949 was at record levels, traders on the short side were in a generally unfavorable position to make deliveries on futures contracts. Total supplies of storage eggs meeting requirements for delivery on Chicago futures contracts were at the lowest levels in many years. On Octo-

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ber 1, 1949, open contracts in the October egg future, amounting to 1,573 carlots, were 6 times the total supplies of deliverable storage eggs at all delivery points, including Chicago, and 14 times the deliverable storage supplies at Chicago.

In early October, as the future approached maturity, and shorts strove to extricate themselves from the market, the two largest traders, both in the size group of 100 carlots and over, maintained their long positions. On October 7 a third large trader came in on the long side, purchasing more than 100 carlots. These three accounts held the bulk of the long positions during the last few days of trading in the October future. In the tight situation resulting, the price spread of the October future over the November future, which in prior years had not exceeded 3 cents per dozen, widened to 5.57 cents on October 11, and to 7.65 cents on October 14.

In view of the congested market situation, on October 11 the Commodity Exchange Authority reminded the Chicago Mercantile Exchange of its responsibility to prevent price manipulation and corners on the exchange. Effective October 13, the board of governors of the exchange restricted trading in October eggs to liquidation by those already having commitments in the market, and also increased minimum maintenance margins. On October 14 the exchange suspended all trading in the future, and fixed a settlement price of 53 cents per dozen. The future would not have expired otherwise until October 24.

Concerning the three large accounts in October eggs, the CEA investigation showed that the largest speculator and one of his customers transmitted the orders for the buying in the other two large accounts. At the time trading in the October egg future was suspended, the long holdings of the largest speculator, his customers, and the other two large accounts, amounted to 70 percent of the total long commitments in the October egg future. Of the total deliveries of actual eggs in settlement of the October future, amounting to 200 carlots, the largest speculator came into possession of 192 carlots, receiving deliveries of 170 carlots on his own long positions, and obtaining 22 carlots through purchases of deliveries made to his customers.

Traders on both sides of the market strenuously objected to the settlement price of 53 cents fixed by the exchange. Complaints by longs, most of whom were speculators, claimed that the settlement price was too low. Most of the shorts making complaints were egg dealers who stated that their futures sales were in the nature of hedges against actual eggs. Obviously, an egg dealer who purchased and stored actual eggs in the spring of 1949 at certain levels, and hedged with sales in the October future, lost money if the price of the future reached a disproportionately high level in relation to the price of stored eggs. Apparently the settlement was especially expensive to those whose actual eggs could not be delivered on their futures contracts because of location, size of lots, type of packaging, or other delivery factors.

## TRADE PRACTICE SURVEY IN COTTONSEED OIL FUTURES

A survey was completed during the year of floor trading practices in cottonseed oil futures on the New York Produce Exchange, which is the principal futures market for this commodity. The purpose of

the survey was to ascertain the manner in which futures transactions, including the orders of customers, were being executed and subsequently handled by exchange members, and to determine compliance or noncompliance with the applicable rules and regulations under the Commodity Exchange Act.

The survey covered all transactions in cottonseed oil futures, by all traders, during the week of June 6–10, 1949. The total volume of trading for the 5-day period was 1,432 carlots of 60,000 pounds each, or an aggregate of 85,920,000 pounds. The daily average was 286.4 carlots, or 17,184,000 pounds.

To obtain the necessary information on each trade during the period, the trading cards of all floor traders and the records of all clearing members were examined. The data obtained on each trade included: (1) The identity of the floor trader making the purchase or sale and his clearing member; (2) the identity of the floor trader with whom the purchase or sale was made and his clearing member; (3) the identity of the person (or persons) for whom the purchase or sale was made (either a customer or the floor trader himself).

The survey showed the need for corrective action involving a number of trading practices. These included the keeping of brokers' trading cards, which in some instances were found to be inadequate as records, the question of errors and discrepancies in prices shown on traders' records as compared with exchange price quotations, the reporting of "switch" trades, and the practice of "prearrangement" between brokers in the execution of customers' orders. The latter is a form of offsetting contrary to exchange rules and CEA regulations. It was found that a small minority of brokers were resorting to prearrangement on a considerable scale. On July 19, 1949, the situation was brought before exchange officials for corrective action, and on the following day all floor brokers were informed that prearranged trading would cease.

The survey showed that the largest portion of the trading originated with outside customers, that is, with nonmember customers and nonresident members trading through floor brokers. During the survey period, 55 percent of the total contracts bought and almost exactly the same percentage sold were for the accounts of outside customers. The remaining 45 percent of contracts were for accounts of floor traders and local members trading for themselves.

The data were analyzed to determine what percentage of orders of outside customers "met in the ring," i. e., customers' orders to buy met customers' orders to sell, and what percentage was executed by trades with floor traders and local members trading for themselves. It was found that customers' orders met in the ring in about one instance in three. Of the total orders executed for customers, involving 789 contracts bought and 794 contracts sold, customers' orders to buy met customers' orders to sell to the extent of approximately 38 percent of the contracts. The balance of customers' orders, involving 62 percent of the contracts, were executed by trading with local members and floor traders engaged primarily in "scalping" transactions.

The survey showed that in reference both to executions for customers and in scalping transactions a substantial proportion of the trading in cottonseed oil futures was in the hands of a relatively small number

of floor traders. This situation tended to restrict opportunities for competitive execution of orders.

Of the 22 floor brokers executing orders exclusively or primarily for customers, the 6 most active accounted for 61 percent of the total customer-order executions. Most of the floor brokers executing for customers were independent brokers; but the 3 most active were salaried employees of large brokerage firms. These 3 most active brokers accounted for 40 percent of the total contracts purchased and sold for customers during the survey period.

Of the 18 members trading exclusively or primarily for themselves (mostly scalping), the 6 most active accounted for 63 percent of such trading, and the 3 most active accounted for 42 percent.

The survey showed that the 40 clearing firms accepting cottonseed oil trades tended to specialize, some clearing customer trades primarily, while others cleared scalping transactions primarily. Of the 40 firms, 26 cleared trades for customers exclusively, 7 cleared local-member and scalping transactions exclusively, and 7 cleared both types. Four of the clearing firms accounted for more than 50 percent of all trades for customers.

## FUTURES TRADING IN SOYBEAN OIL

With the reopening of futures trading in soybean oil on the New York Produce Exchange, and the designation of the Chicago Board of Trade as a futures market for the commodity, the CEA became responsible for the regulation of futures trading on two additional futures markets.

Trading in soybean oil on the New York Exchange was resumed in September 1949, following the adoption of a revised crude oil contract. A small but active market soon developed. The volume to June 30, 1950, was 227,100,000 pounds. The soybean oil market opened by the Chicago Board of Trade, following its designation on June 30, 1950, also attracted substantial activity, with a volume in the initial period comparable to that on the New York Exchange.

Soybean oil is one of the commodities brought under the Commodity Exchange Act by the amendment of October 9, 1940. A contract for futures trading in the commodity was adopted by the New York Produce Exchange at about that time. Very little activity had developed, however, when World War II intervened. In 1946, the crude oil contract was suspended in favor of a refined oil contract, but this did not prove attractive to the trade, and no activity of any consequence developed until the present crude oil contract was adopted.

The development of futures trading in soybean oil is in keeping with the growing commercial importance of the commodity. Production increased nearly fourfold in the 10-year period 1939–48, to a present production level approaching 2 billion pounds annually. The carrying of large stocks of crude and refined soybean oil in commercial channels involves large price risks which effective hedging in futures should help to minimize.

Judging from the experience of other futures markets, the successful development of futures trading in soybean oil will depend largely upon the usefulness of the market's price-quotation and hedging services to

the soybean oil industry. A special CEA survey of all accounts in the New York soybean oil market as of March 27, 1950, showed that the short hedging positions, although few in number, accounted for 80 percent of the short side. Since the speculative accounts with but few exceptions were on the long side, the market was thus heavily dependent upon the trades of hedgers seeking price protection.

New futures markets such as those in soybean oil may not have the large trading volume and steady stream of price quotations reflected by the larger markets. To maintain dependable hedging services, it is particularly important that the orders of customers have the benefit of all the competitive bids and offers that the market affords. This requires careful attention to the writing and observance of trading rules, and the maintenance of high standards in floor trading practices. If the trade generally is to have confidence in the integrity of a futures market, customers' orders must be competitively executed to the fullest possible extent, and price quotations must furnish an accurate reflection of bona fide purchases and sales.

## CONTRACT MARKETS UNDER SUPERVISION

The CEA supervises futures trading on commodity exchanges designated under the Commodity Exchange Act [1] as contract markets. The following list shows the 18 commodity exchanges which are designated as contract markets, and the 19 commodities in which futures trading was conducted during the year under CEA supervision:

| *Market* | *Commodity* |
|---|---|
| Chicago Board of Trade | Wheat, corn, oats, rye, soybeans, lard, cotton. |
| Chicago Mercantile Exchange | Butter, eggs, potatoes. |
| Chicago Open Board of Trade | Wheat, corn, oats, rye, soybeans. |
| Duluth Board of Trade | (No trading in 1949–50). |
| Kansas City Board of Trade | Wheat, corn, bran, shorts. |
| Los Angeles Grain Exchange | (No trading in 1949–50). |
| Memphis Merchants Exchange Clearing Association. | Cottonseed meal, soybean meal. |
| Milwaukee Grain Exchange | Wheat, corn, oats, rye. |
| Minneapolis Grain Exchange | Wheat, corn, oats, rye, flaxseed. |
| New Orleans Cotton Exchange | Cotton, cottonseed oil. |
| New York Cotton Exchange | Cotton. |
| New York Mercantile Exchange | Eggs, potatoes, rice. |
| New York Produce Exchange | Cottonseed oil, soybean oil. |
| Portland Grain Exchange | (No trading in 1949–50). |
| St. Louis Merchants' Exchange | (No trading in 1949–50). |
| San Francisco Grain Exchange | (No trading in 1949–50). |
| Seattle Grain Exchange | Wheat. |
| Wool Associates of the New York Cotton Exchange. | Wool tops. |

[1] The Commodity Exchange Act applies to the following commodities: Wheat, corn, oats, rye, barley, flaxseed, grain sorghums, millfeeds, cotton, rice, butter, eggs, Irish potatoes, wool tops, fats and oils, cottonseed, cottonseed meal, peanuts, soybeans, and soybean meal.

Most of the exchanges conducted futures trading in more than one of the regulated commodities, and altogether maintained 40 futures-trading markets—6 in wheat, 5 in corn, 4 in oats, 4 in rye, 2 in soybeans, 3 in cotton, 2 in cottonseed oil, 2 in eggs, 2 in potatoes, and 1 each in lard, butter, bran, shorts, cottonseed meal, soybean meal, flaxseed, rice, soybean oil, and wool tops.

The total number of commodities and of contract markets under CEA supervision remained the same as in the previous year. However, the totals for 1949–50 included one commodity, soybean oil, which was not traded in the previous year, and excluded one other, grain sorghums, in which there was nominal trading in 1948–49, but none in 1949–50.

Futures trading in soybean oil was resumed on the New York Produce Exchange in September 1949. The application of the Chicago Board of Trade for designation as a contract market for the commodity was approved by the Secretary of Agriculture on June 30, 1950, and trading began on July 17.

On June 12, 1950, the Chicago Board of Trade adopted rules for trading in "North Pacific Coast" wheat futures under a separate and distinct futures contract. Trading in the contract will be conducted on the Chicago market in the same manner as in other grain futures, but deliveries may be made at specified Pacific Northwest points—Portland, Oreg., and Seattle, Longview, Tacoma, and Vancouver, Wash.

## COMMODITY BROKERS REGISTERED

Commodity brokers engaged in the solicitation or acceptance of orders for the purchase or sale of regulated commodity futures are known under the Commodity Exchange Act as "futures commission merchants." Futures commission merchants are required by the act to register each year with the Secretary of Agriculture. Floor brokers on the exchanges are also required to register annually.

The number of futures commission merchants registered during 1949–50 was 628, compared with 645 in 1948–49. The number of floor brokers registered was 783, compared with 749. As of June 30, 1950, the registered futures commission merchants maintained a total of 1,752 principal and branch offices, and had agents in 226 other offices. The comparable figures a year earlier were 1,741 offices maintained by registrants and 215 agents' offices. These offices were located in 47 States, the District of Columbia, Hawaii, Puerto Rico, and 13 foreign countries.

## VOLUME OF TRADING

Table 9 shows the volume of trading in regulated commodities during the year ended June 30, 1950.

As compared with the previous year, trends in the various commodities were mixed. In wheat, corn, and cotton, the volume was somewhat smaller. Trading in soybeans and soybean meal was the largest on record, and in cottonseed oil the largest in 21 years of CEA records. For the 19 commodities, 9 showed increases as compared with 1948–49 and 10 showed decreases.

Trading in grain futures on all markets amounted to 11,461,000,000 bushels in 1949–50, a 4 percent increase over the previous year. The grain futures volume was 38 percent greater than the average for the 10-year period, 1940–49. The increase in 1949–50 over the preceding year was accounted for largely by the unprecedented volume of futures trading in soybeans and increased trading in rye which more than offset the decreased activity in wheat, corn, and oats.

The trading volume in soybeans, aggregating 3,613,906,000 bushels in 1949–50, was 135 percent greater than in the previous year. Wheat futures trading amounted to 4,201,964,000 bushels, a decrease of 7 percent; corn futures 2,013,400,000 bushels, a decrease of 45 percent; and oat futures 1,048,240,000 bushels, a decrease of 11 percent. Rye futures trading at 581,637,000 bushels was up more than 300 percent.

Trading in cotton on the three exchanges declined. Volume amounted to 52,697,000 bales, a 17 percent decrease from 1948–49, and a decrease of 13 percent in comparison with the average for the 10-year period, 1940–49.

Activity in egg futures continued to decline from the high levels reached in the immediate postwar years. Trading in butter was light. Bran trading increased during the year, but shorts decreased. Trading in soybean meal reached 1,126,000 tons, and cottonseed meal trading showed a marked increase.

In cottonseed oil the volume amounted to 4,534,680,000 pounds, a 42 percent increase over 1948–49. Lard trading was 1,521,400,000 pounds, a decrease of 58 percent compared with 1948–49. Soybean oil trading increased steadily after the reopening of trading in September 1949, and totaled 227,100,000 pounds for the balance of the year.

TABLE 9.—*Volume and estimated value of futures trading, by commodities, fiscal years 1948, 1949, and 1950*

VOLUME OF FUTURES TRADING

| Commodity | 1948 | 1949 | 1950 |
|---|---|---|---|
| Wheat ............ thousand bushels.. | 5, 768, 086 | 4, 514, 893 | 4, 201, 964 |
| Corn ............ do.... | 3, 798, 763 | 3, 678, 278 | 2, 013, 400 |
| Oats ............ do.... | 2, 668, 554 | 1, 175, 747 | 1, 048, 240 |
| Rye ............ do.... | 21, 141 | 125, 364 | 581, 637 |
| Barley ............ do.... | 15 | ............ | ............ |
| Flaxseed ............ do.... | ............ | 11 | 53 |
| Soybeans ............ do.... | 40, 162 | 1, 537, 663 | 3, 613, 906 |
| Grain sorghums ............ do.... | 860 | 15 | ............ |
| Rice, milled ............ thousand pounds.. | ............ | 1, 400 | 2, 040 |
| Cotton ............ thousand bales.. | 110, 593 | 63, 385 | 52, 697 |
| Wool tops ............ thousand pounds.. | 31, 650 | 50, 590 | 48, 290 |
| Butter ............ carlots.. | 22, 066 | 17, 377 | 2, 433 |
| Eggs ............ do.... | 125, 020 | 91, 191 | 56, 938 |
| Potatoes ............ do.... | 27, 582 | 9, 214 | 6, 592 |
| Lard ............ thousand pounds.. | 2, 938, 880 | 3, 613, 720 | 1, 521, 400 |
| Cottonseed oil ............ do.... | 1, 476, 900 | 3, 195, 810 | 4, 534, 680 |
| Soybean oil ............ do.... | 900 | ............ | 227, 100 |
| Bran ............ tons.. | 518, 010 | 337, 050 | 358, 380 |
| Shorts ............ do.... | 300, 840 | 213, 000 | 143, 730 |
| Cottonseed meal ............ do.... | 245, 700 | 378, 800 | 478, 300 |
| Soybean meal ............ do.... | 412, 200 | 474, 700 | 1, 126, 000 |

TABLE 9.—*Volume and estimated value of futures trading, by commodities, fiscal years 1948, 1949, and 1950*—Continued

ESTIMATED VALUE OF FUTURES TRADING

| Commodity | 1948 | 1949 | 1950 |
|---|---|---|---|
| | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* |
| Wheat | 14, 979, 719 | 10, 117, 875 | 9, 038, 425 |
| Corn | 9, 166, 415 | 5, 723, 401 | 2, 736, 211 |
| Oats | 3, 191, 591 | 899, 446 | 800, 855 |
| Rye | 54, 967 | 191, 682 | 825, 343 |
| Barley | 34 | ---------- | ---------- |
| Flaxseed | ---------- | 66 | 209 |
| Soybeans | 147, 796 | 3, 997, 924 | 9, 251, 599 |
| Grain sorghums | 1, 820 | 21 | ---------- |
| Rice, milled | ---------- | 212 | 255 |
| Cotton | 19, 280, 146 | 10, 239, 847 | 8, 276, 064 |
| Wool tops | 57, 603 | 84, 586 | 85, 763 |
| Butter | 333, 426 | 217, 481 | 29, 717 |
| Eggs | 1, 008, 161 | 702, 975 | 313, 696 |
| Potatoes | 44, 680 | 15, 019 | 8, 306 |
| Lard | 670, 065 | 578, 195 | 171, 918 |
| Cottonseed oil | 403, 194 | 591, 225 | 648, 459 |
| Soybean oil | 252 | ---------- | 26, 344 |
| Bran | [1] 52, 529 | [1] 25, 099 | 14, 819 |
| Shorts | ---------- | ---------- | 6, 784 |
| Cottonseed meal | 21, 256 | 24, 452 | 29, 999 |
| Soybean meal | 38, 499 | 36, 006 | 86, 679 |
| Total | 49, 452, 153 | 33, 445, 512 | 32, 351, 445 |

[1] Bran and shorts are combined for 1948 and 1949.

## OPEN CONTRACTS

Open contracts are the positions of traders which have not been closed out by offsetting transactions or by delivery. Figures on total open contracts on the books of exchange clearing members at the end of each trading day are compiled by the CEA from daily reports of clearing members. Annual averages of month-end figures on open contracts in the commodities under the act are shown in table 10.

Changes in open contracts between the 1949 and 1950 fiscal years as reflected in table 10 were relatively small for most commodities. A marked increase occurred, however, in average open contracts for soybeans, rye, cottonseed oil, soybean oil, cottonseed meal, and soybean meal. The most substantial decreases were in corn and lard in 1950 as compared with the previous year.

Seasonal changes in open contracts are not reflected in table 10. Ordinarily, for commodities in which hedging is extensively practiced, open contracts tend to increase seasonally during the months of heaviest marketing. As a crop is sold in volume from farms, an increase in inventories of merchants and processors is likely to be reflected in a rise in short hedging commitments and total open contracts. After the peak of the marketing season or the peak of commercial stocks of the commodity, open contracts tend to decline until the movement of the new crop begins—unless, of course, there

is a post-seasonal movement of the commodity or an unusual speculative interest in futures. The peak movement of the commodity into commercial channels and accompanying seasonal change in open contracts may vary from one year to another, depending on production and weather conditions, price situations and general economic factors.

TABLE 10.—*Annual average of open contracts on all contract markets, by commodities, fiscal years 1946–50 (average of open contracts at end of each month)* [1]

| Commodity | 1946 | 1947 | 1948 | 1949 | 1950 |
|---|---|---|---|---|---|
| Wheat ---- million bushels | 51.4 | 38.1 | 94.0 | 90.6 | 85.1 |
| Corn ---- do | 15.6 | 36.3 | 53.0 | 57.9 | 49.2 |
| Oats ---- do | 54.0 | 44.9 | 45.0 | 28.4 | 28.2 |
| Rye ---- do | 20.6 | .1 | .8 | 4.1 | 18.8 |
| Barley ---- do | 1.1 | .2 | (2) | ------ | ------ |
| Flaxseed ---- do | .1 | ------ | ------ | (2) | (2) |
| Soybeans ---- do | ------ | ------ | 1.8 | 17.4 | 54.1 |
| Grain sorghums ---- do | .3 | .1 | (2) | (2) | ------ |
| Rice, milled ---- million pounds | ------ | ------ | ------ | 1.3 | .6 |
| Cotton ---- million bales | 2.6 | 3.1 | 2.7 | 2.4 | 2.4 |
| Wool tops ---- million pounds | 5.6 | 4.3 | 4.0 | 5.6 | 4.8 |
| Butter ---- thousand carlots | (3) | .2 | .7 | .7 | .2 |
| Eggs ---- do | 5.6 | 4.2 | 2.7 | 2.5 | 2.3 |
| Potatoes ---- do | .8 | 1.2 | 1.6 | .8 | .6 |
| Lard ---- million pounds | .4 | 12.0 | 75.6 | 87.8 | 63.2 |
| Cottonseed oil ---- do | .3 | 13.7 | 53.2 | 91.7 | 188.9 |
| Soybean oil ---- do | ------ | (4) | .1 | ------ | 17.1 |
| Bran ---- thousand tons | ------ | 4.0 | 28.6 | 19.4 | 19.1 |
| Shorts ---- do | ------ | 3.2 | 17.0 | 11.4 | 8.8 |
| Cottonseed meal ---- do | .1 | 7.2 | 19.7 | 24.3 | 31.0 |
| Soybean meal ---- do | ------ | 12.1 | 25.8 | 26.1 | 77.3 |

[1] Yearly totals divided by 12, except that, for certain commodities and markets, months prior to inauguration of trading and months in which trading was suspended not included in computations.
[2] Less than 50,000 bushels.
[3] Less than 50 carlots.
[4] Less than 50,000 pounds.

In 1949–50, the seasonal pattern in open contracts was well illustrated by the change in wheat futures. Open contracts on all wheat futures markets were at the year's highest level from midsummer to early fall. Wheat marketing is normally heavy at this period of the year. The peak for mid-month and month-end dates was 114,051,000 bushels reached on July 31. Open contracts in wheat declined generally thereafter until new crop wheat began to move in May 1950.

In corn and soybeans, with crop years beginning October 1, the October–December quarter is normally a period of heaviest marketings and large open contracts. During this period in 1949 there was a marked seasonal increase in open contracts in both commodities. The peak for midmonth or month-end dates in open contracts in corn was on December 15, with a total of 62,676,000 bushels. Open contracts in corn then declined seasonally. In soybeans the peak was 79,137,000 bushels, reached on November 15, followed by a seasonal

decline which was interrupted in March and April, and also in June, total open contracts increasing in both these periods. Since known hedging commitments continued to decline in the two periods, it is evident that unusual speculative factors were involved.

The seasonal peak in open contracts in cotton was on December 15, with a total of 2,615,000 bales on all markets combined. During the ensuing months the seasonal decrease in open contracts was less marked than in other years. In the late winter and spring cotton prices advanced and there were relatively large marketings, based on repossessions by farmers of 1949 loan cotton and sales of 1948 cotton from CCC stocks. In this situation short hedging commitments of reporting traders and total open contracts continued at substantial levels.

## USE OF OPEN-CONTRACT DATA

Open-contract data provide a static view of the market as of the close of business on any given day, but do not provide a measure of activity in the market while trading is going on. As pointed out in a previous section, the proportions of speculation and hedging reflected in a breakdown of trading volume may differ considerably from that shown by an analysis of open contracts. Because of the numerous speculative transactions of in-and-out traders and scalpers, the proportion of speculative activity is higher than the proportion of speculative positions reflected in the open contracts carried over night.

Information for all traders as to the proportion of open contracts and trading which is speculative as compared with hedging is not regularly available. From time to time in connection with regulatory investigations the CEA makes special market surveys covering all traders in a market or commodity. These surveys, based on reports required of commission houses, provide fairly complete data on the aggregate open contracts and trading which are speculative and hedging, respectively. However, the classification of open contracts and trading is by the commission house, rather than by the trader himself. There is a tendency among commission houses to report all open contracts and trades in some accounts as hedging, even though they may be speculative in whole or in part. Therefore, these market-wide surveys tend to understate the proportion of open contracts and trading which is speculative and overstate the hedging proportion. There is need for more complete and accurate data, on a regular basis, regarding the relative amounts of speculation and hedging in the markets.

For a number of years partial information on hedging and speculative open contracts has been obtained by the CEA from daily reports of traders subject to the reporting requirements under the act. In these reports the traders themselves classify their open contracts as speculative commitments (on one side only, or on both sides—spreads or straddles), or as hedging commitments.

The classified data provide fairly representative information on the amount and proportion of hedging commitments in the market. The classified speculative commitments, however, are not representative of the amount and proportion of total speculative open contracts in the market. With these qualifications in mind, the classified data are of use in intercommodity comparisons and the measurement of year-to-year and seasonal changes in a single commodity. Annual averages of the classified commitments of reporting traders for the fiscal year 1950 are shown for three principal grains and cotton in table 11. Comparable classified data are not available for nonreporting traders. Their total commitments, also shown in table 11 are residual amounts derived by subtracting the commitments of reporting traders from total open contracts.

For wheat, the commitments of reporting traders constituted well over half of total open contracts, averaging 53.2 percent of long contracts and 58.9 percent of short contracts in 1949–50. The proportion of total open contracts represented by the commitments of reporting traders was considerably lower for soybeans and was well under half for cotton.

Because of the tendency for the bulk of the commercial stocks of a commodity to be held by larger merchants and processors, who are ordinarily in reporting status, the classified data are generally representative of total hedging commitments in futures. They are therefore useful in appraising the relative amount of hedging commitments as between commodities, as well as changes from year to year in a single commodity.

In 1949–50, short positions of reporting traders classified as hedging were relatively greater for wheat and corn than for soybeans and cotton. Reported short hedging positions constituted 39.9 percent of total open contracts in wheat and 39.1 percent in corn, whereas in soybeans and cotton the comparable percentages were 32.1 and 26.1, respectively. Long hedging commitments of reporting traders in wheat and cotton were considerably larger on the average in 1949–50 in relation to total open contracts than in the case of corn and soybeans. To the extent that short hedging commitments are offset by long hedging commitments, the price risks of merchants and processors are carried within the group and there is less need for speculative positions to carry these risks.

As indicated above, the commitments classified as speculative by reporting traders constitute only a portion of total speculative commitments in the markets. The classified speculative commitments, ranging from 20 to 30 percent of total open contracts, as shown by the table, represent the speculative positions of the large traders only. The remainder and larger part of the speculative positions are included in the unclassified commitments of nonreporting traders, which constitute from 40 to 60 percent of total open contracts. The market-wide surveys made by the CEA showed definitely that the bulk of the nonreporting traders' commitments were speculative.

TABLE 11.—*Commitments of reporting and nonreporting traders on all contract markets, average of semimonthly figures, fiscal year 1950*

| Class | Wheat | | Corn | | Soybeans | | Cotton | |
|---|---|---|---|---|---|---|---|---|
| | Long | Short | Long | Short | Long | Short | Long | Short |
| AMOUNT | | | | | | | | |
| | *1,000 bushels* | *1,000 bushels* | *1,000 bushels* | *1,000 bushels* | *1,000 bushels* | *1,000 bushels* | *1,000 bales* | *1,000 bales* |
| Reporting traders: | | | | | | | | |
| Speculative: | | | | | | | | |
| Long or short only | 14, 145 | 2, 697 | 7, 541 | 3, 115 | 6, 068 | 1, 145 | 136 | 41 |
| Long and short (spreading) | 13, 633 | 13, 633 | 8, 213 | 8, 213 | 10, 235 | 10, 235 | 358 | 358 |
| Total | 27, 778 | 16, 330 | 15, 754 | 11, 328 | 16, 303 | 11, 380 | 494 | 399 |
| Hedging | 17, 873 | 34, 268 | 4, 762 | 19, 314 | 6, 181 | 17, 148 | 565 | 620 |
| Total large traders | 45, 651 | 50, 598 | 20, 516 | 30, 642 | 22, 484 | 28, 528 | 1, 059 | 1, 019 |
| Nonreporting traders: | | | | | | | | |
| Speculative and hedging | 40, 226 | 35, 279 | 28, 890 | 18, 764 | 31, 016 | 24, 972 | 1. 315 | 1, 355 |
| Total open contracts | 85, 877 | 85, 877 | 49, 406 | 49, 406 | 53, 500 | 53, 500 | 2. 374 | 2, 374 |

PERCENTAGE

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Reporting traders: | | | | | | | | |
| Speculative: | | | | | | | | |
| Long or short only | 16. 5 | 3. 1 | 15. 3 | 6. 3 | 11. 3 | 2. 1 | 5. 7 | 1. 7 |
| Long and short (spreading) | 15. 9 | 15. 9 | 16. 6 | 16. 6 | 19. 1 | 19. 1 | 15. 1 | 15. 1 |
| Total | 32. 4 | 19. 0 | 31. 9 | 22. 9 | 30. 4 | 21. 2 | 20. 8 | 16. 8 |
| Hedging | 20. 8 | 39. 9 | 9. 6 | 39. 1 | 11. 6 | 32. 1 | 23. 8 | 26. 1 |
| Total large traders | 53. 2 | 58. 9 | 41. 5 | 62. 0 | 42. 0 | 53. 3 | 44. 6 | 42. 9 |
| Nonreporting traders: | | | | | | | | |
| Speculative and hedging | 46. 8 | 41. 1 | 58. 5 | 38. 0 | 58. 0 | 46. 7 | 55. 4 | 57. 1 |
| Total open contracts | 100. 0 | 100. 0 | 100. 0 | 100. 0 | 100. 0 | 100. 0 | 100. 0 | 100. 0 |

## DAILY REPORTS FROM BROKERS AND LARGE TRADERS

Information from required daily reports made by the trade to the CEA is an important basis for futures market regulatory work. The two major types of required daily reports are those from exchange clearing members on volume of trading and open contracts, and the daily reports on the operations of individual large traders, i. e., traders in "special account" status.

A total of 520,000 reports showing futures transactions, open contracts, or cash positions were submitted by exchange clearing members and individual large traders during the year. This was a decrease of 1.5 percent compared with 1949, when 528,000 reports were filed. The following table shows the number of reports handled in 1948–49 and 1949–50 by each field office.

| | Reports (number) | |
|---|---|---|
| Office: | *1949* | *1950* |
| Chicago | 283, 444 | 295, 379 |
| New York | 122, 745 | 106, 326 |
| Minneapolis | 56, 060 | 53, 122 |
| Kansas City | 41, 730 | 38, 640 |
| New Orleans | 23, 814 | 26, 531 |
| Total | 527, 793 | 519, 998 |

Of the 520,000 reports submitted, 254,000 were by exchange clearing members whose daily reports when tabulated and combined were the source of the volume of trading and open contract figures released daily to the public. The figure for the recent year compares with 261,000 in 1948–49.

The balance of the reports received, amounting to 266,000, were filed by large traders in "special account" status and by futures commission merchants reporting such accounts. This was approximately the same number as in the previous year when 267,000 reports were submitted. Special accounts submitting reports averaged in number 562 daily for all commodities compared with 629 in the previous year. This decrease was largely due to the reduction in the number of traders reporting in cottonseed oil and lard for which the reporting level was raised near the end of the previous year.

Reports from exchange clearing members, futures commission merchants, and individual large traders, formed the basis for a large part of the daily regulatory activities during the year. All reports submitted were audited, reviewed, and tabulated. Inaccuracies were corrected by contact with the reporting trader or firm involved. In two instances during the year it was necessary for the Secretary to issue formal complaints against traders for willful failure to report.

Because of the unusual activity in soybeans, eggs, and several other commodities, the special account reports were particularly valuable during the year in keeping the CEA informed as to the operations of large traders. The agency knew which accounts to examine most closely for evidence of manipulation and control. It had day-to-day information on large-scale trading, and knew when traders were building up or reducing large lines in the market. Reports were continuously checked to see that traders did not exceed the fixed limits on speculative trading in grain and cotton futures.

## REPORTING LEVELS OF LARGE TRADERS

The so-called large-trader reports are those required of all individuals and firms whose futures holdings in a regulated commodity equal or exceed a certain amount. This amount, or "reporting level," for a commodity is fixed by the Secretary of Agriculture under provisions of the Commodity Exchange Act. In wheat futures, for example, the reporting level is 200,000 bushels in one wheat future. Any trader having positions in one wheat future equal to or in excess of 200,000 bushels is required to report daily all his trades and positions in that wheat future and all other wheat futures. The reporting requirements in effect as of June 30, 1950, for various commodities were as follows:

| Commodity: | *Quantity* |
|---|---|
| Wheat, corn, oats, rye, barley, flaxseed, soybeans, grain sorghums. | 200,000 bushels. |
| Rice, milled | 56,000 pockets. |
| Cotton | 5,000 bales. |
| Wool tops | 125,000 pounds. |
| Butter, eggs, potatoes | 25 carlots. |
| Cottonseed oil, soybean oil | 900,000 pounds. |
| Lard | 600,000 pounds. |
| Millfeeds (bran, shorts, middlings) | 1,000 tons. |
| Cottonseed meal, soybean meal | 1,500 tons. |

The reporting levels for two commodities—cottonseed meal and soybean meal—were changed during the year. Effective January 12, 1950, only those traders with 1,500 tons or more in any one cottonseed meal or soybean meal future are required to report. Previously, those with 1,000 tons or more were in reporting status.

## PROTECTION OF CUSTOMERS' FUNDS

The books and records of all registered futures commission merchants were audited during the year to determine compliance with the segregation provisions and other requirements of the act. The purpose of the segregation provisions, briefly stated, is to prevent misuse of the funds of some customers to finance the speculation of more favored customers or of the brokerage house, and to safeguard the markets against other improper brokerage practices in the handling of customers' funds.

The audits showed 49 instances in which futures commission merchants were not keeping the required amount of customers' funds segregated and separately accounted for. The firms involved were required to bring their segregated-fund balances to the proper levels. Other deviations requiring corrective action in frequent instances included: Improper transfers of customers' funds, mixing customers' funds and trades with those of the brokerage house, failure to file required reports on trading operations, failure to register as futures commission merchant, and the carrying of long and short positions open in the same future, contrary to section 1.46 of the rules and regulations under the act.

The following tabulation shows for the past four fiscal years the number of segregation audits by the CEA, the number of commodity accounts covered, and the amount of customers' funds in these accounts as of the dates on which the audits were made.

| Year | Audits | | |
|---|---|---|---|
| | *Number* | *Accounts examined (number)* | *Customers' funds* |
| 1946–47 | 457 | 11, 362 | $ 51, 706, 820. 88 |
| 1947–48 | 621 | 26, 165 | 139, 234, 712. 14 |
| 1948–49 | 751 | 28, 064 | 122, 811, 161. 67 |
| 1949–50 | 695 | 25, 768 | 93, 768, 639. 44 |

## CASES INVOLVING VIOLATIONS OF THE ACT

Where investigations by the CEA point to violations of the act, a complaint may be issued by the Secretary of Agriculture leading to an administrative proceeding. Violations of the criminal provisions of the act may also be referred to the Department of Justice for criminal prosecution in a United States District Court.

In criminal prosecutions before the United States District Courts, defendants who are found guilty may be fined up to $10,000 or imprisoned for 1 year, or both.

In administrative proceedings, the evidence in support of the complaint and the respondent's defense, respectively, is presented at hearings before a referee. The referee submits a report containing his findings of fact, conclusions, and proposed order, to the Judicial Officer of the Department. The Judicial Officer, after consideration of the record, issues the final order. If, on the basis of the record, he believes that the imposition of sanctions is appropriate, he may issue an order to contract markets directing the denial of trading privileges to the respondent for a specified period. If the respondent is registered as futures commission merchant or floor broker, the Judicial Officer may also suspend or revoke such registration. Orders of the Judicial Officer are subject to appeal by the respondent to a United States Court of Appeals.

During the recent fiscal year, six cases charging violation of the act were dealt with in administrative proceedings, as summarized in subsequent paragraphs. In one case, as indicated, the charges against the respondent also involved criminal prosecution.

CE–A Docket No. 47. *In re Ralph W. Moore.*—On May 27, 1948, the respondent was charged with failure to submit required reports on speculative transactions and positions in grain, cotton, and lard futures, and attempting to manipulate lard prices by means of false reports delivered for transmittal in interstate commerce. Hearings before the referee in the case were completed on April 26, 1949. On March 10, 1950, the referee filed his report recommending that the Judicial Officer find that the respondent failed to file required reports and had delivered false information in an attempt to raise the price of lard. The referee recommended that the respondent be denied trading privileges on all contract markets for 30 days. The case was pending before the Judicial Officer at the close of the year.

CE–A Docket No. 48. *In re Great Western Distributors, Inc., Nathaniel E. Hess, Charles S. Borden, Thomas F. Haynes, and Hartley L. Harris.*—A complaint of July 12, 1948, charged that the respondent corporation, having attained a dominant and controlling position in the December 1947 egg futures market in Chicago, and having obtained control of the supply of deliverable eggs in Chicago and surrounding area, attempted to manipulate the price of the commodity, and cornered the commodity, in violation of sections 6 (b) and 9 of the Commodity Exchange Act. Respondents' answer to the complaint was received December 22, 1948. Hearings before the referee in the case were held in Chicago on July 26–29, 1949, and the Government's testimony presented. In further hearings on October 18–21, and on December 7–10, 1949, the respondents presented their defense, and cross-examination of witnesses was completed. On May 22, 1950, the proposed findings of fact of the Government and of the respondents, respectively, were filed with the referee. The referee's report, filed after the close of the fiscal year, supported the Government's charges.

CE–A Docket No. 49. *In re Charles B. Grady.*—A complaint of August 31, 1948, charged Grady, a Chicago broker, with violations of the act including the cheating and defrauding of customers. At a hearing on May 26, 1949, the respondent did not defend; and the report of the referee in the case, issued August 11, 1949, recommended that the respondent be found in violation as charged. A decision and order of the Judicial Officer of the Department, issued November 21, 1949, revoked the respondent's registration as a futures commission merchant.

On the basis of the investigations of the CEA in this case, a criminal information was also filed against Grady by the Department of Justice (October 8, 1948). The information charged Grady with swindling four customers—all women—of a total of more than $26,000 under the pretense of dealing in commodity futures for them, failure to segragate and properly account for the funds of customers, and converting such funds to his own use. The defendant was convicted by a jury on all eight counts contained in the criminal information; and on February 1, 1950, was sentenced to 1 year in prison and fined $5,000 by the United States District Court for the Northern District of Illinois. The decision was appealed by the defendant, and the case was pending at the close of the year before the United States Court of Appeals, Seventh Judicial Circuit.

CE–A Docket No. 51. *In re M. Richter Sons, Isadore Richter, and Fred Richter.*—A complaint and notice of hearing of July 21, 1949, charged that the respondents, members of a Chicago brokerage firm, failed to keep required records, made bookkeeping entries which falsely showed a customer's trades as trades belonging solely to the firm, commingled funds of the customer with those of the brokerage house, and failed to make required reports of futures transactions and positions. The respondents waived a hearing and consented to the entrance of an order of suspension from the markets for a limited period. An order of the Judicial Officer of the Department, effective August 13, 1949, suspended for 15 days the registration of the respondents as futures commission merchants, and ordered all contract markets to refuse trading privileges to the respondents for the same 15-day period.

CE–A Docket No. 52. *In re Claud Wilkes.*—On December 19, 1949, a complaint and notice of hearing charged Claud Wilkes with wilful failure to make reports on holdings in cotton futures as required under section 4i of the act. A hearing on the complaint was held in New Orleans on March 8, 1950. The referee's report, filed June 7, 1950, adopted the complainant's proposed findings of fact, and recommended that the respondent be denied trading privileges on contract markets for a period of 60 days.

CE–A Docket No. 53. *In re Cotton Products Co., Inc., J. P. Barnett, Sr., A. F. Spencer, J. P. Doherty, L. T. Poulet, and J. P. Barnett Jr.*—In a complaint and notice of hearing signed January 20, 1950, the respondents were charged with wilfully failing to make reports to the Commodity Exchange Authority of positions in cottonseed oil futures as required under section 4i of the act. A hearing, scheduled to be held in New Orleans on March 9, 1950, was canceled after the receipt of letters from the respondents which constituted admission of the allegations contained in the complaint and a waiver of hearing. The referee's report, filed June 7, 1950, recommended that respondent A. F. Spencer be denied trading privileges on contract markets for a period of 60 days, that Cotton Products Co., Inc., be denied trading privileges for 60 days, to be held in abeyance for a period of 1 year; and that the complaint be dismissed against respondents J. P. Barnett, Sr., J. P. Doherty, L. T. Poulet, and J. P. Barnett, Jr.

U. S. GOVERNMENT PRINTING OFFICE: 1950

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# REPORT OF THE ADMINISTRATOR

# OF THE

# COMMODITY EXCHANGE AUTHORITY

# 1951



UNITED STATES DEPARTMENT OF AGRICULTURE

# Report of the Administrator of the Commodity Exchange Authority, 1951

United States Department of Agriculture,
Commodity Exchange Authority,
*Washington, D. C., October 9, 1951.*

Hon. Charles F. Brannan,
*Secretary of Agriculture.*

Dear Mr. Secretary: I submit herewith a report of the work of the Commodity Exchange Authority for the fiscal year ended June 30, 1951.

Sincerely yours,

J. M. Mehl,
*Administrator.*

## CONTENTS



## THE COMMODITY FUTURES MARKETS IN 1950–51

The regulation of futures trading under the Commodity Exchange Act during the 1950–51 fiscal year dealt with a high level of market activity and widely ranging prices.

The volume of trading increased sharply, compared with the previous fiscal year. Activity was greater in 17 of the 20 commodities in which trading was conducted under the act, and in 5 commodities the volume was the largest on record—cottonseed oil, soybean oil, soybean meal, eggs, and grain sorghums.

The volume in cotton futures was 50 percent greater than in the previous year, in spite of the fact that trading was suspended for 6 weeks following the General Ceiling Price Regulation issued by the Office of Price Stabilization on January 26, 1951.

Total trading in grain futures was 12.1 billion bushels, an increase of 5.6 percent over the previous year. There was increased activity

in wheat, corn, and oats, and the volume in soybeans, although below the abnormal level of 1949–50, was the second largest on record.

For all regulated commodities and markets, there was an estimated total of 8,257,000 commodity futures transactions—purchases and sales in terms of contract units—representing an increase of 16.1 percent compared with the preceding fiscal year, and an increase of 43.2 percent over the average for the 10-year period 1941–50.

The total dollar value of futures trading in regulated commodities, reflecting an increased number of transactions as well as higher prices, was 45.7 percent greater than in the previous fiscal year (table 4). The 1950–51 trading had an estimated value of $47,143,639,000, compared with $32,351,445,000 in 1949–50, and was more than 100 percent greater than the average of $22,586,441,000 for the 10-year period 1941–50.

The indicated dollar amount of futures trading in regulated commodities in 1950–51 was nearly twice that of trading on the 16 registered securities exchanges, the value of all transactions on the latter being $24,108,659,000 in the year ended June 30, 1951.

Cotton accounted for a larger part of the 1950–51 futures trading in terms of dollar value than any other commodity, cotton futures transactions having an estimated value of $16,727,000,000, or 35.5 percent of the total for all regulated commodities. Futures trading in wheat ranked second, with an estimated value of $11,105,000,000, or 23.6 percent of the total. Soybean futures trading valued at $8,899,000,000 was 18.9 percent of the total, and corn futures trading valued at $3,787,000,000 was 8 percent. Other commodities with futures trading valued above $500,000,000 were cottonseed oil, oats, rye, eggs, and soybean oil.

Considering all the future markets in regulated commodities, the greatest volume of trading was in the period of rising prices from the outbreak of hostilities in Korea in June 1950 to the midwinter of 1951. There was sporadic—and in some cases sustained—speculative buying of commodities in wartime demand, particularly the fiber and oilseed commodities, including cotton and soybeans. Speculative buying in these and other commodities was counterbalanced to some extent by hedging sales during the fall months when leading crops were being marketed in volume.

Futures prices of most commodities reached highest levels in January and February 1951, just prior to or following the issuance of the General Ceiling Price Regulation by the Office of Price Stabilization on January 26, 1951. Futures trading in most commodities under the Commodity Exchange Act was not directly affected by the General Ceiling Price Regulation, since prices did not reach levels at which ceilings could be applied. Trading in these commodities continued at high levels through the late winter and spring of 1951, as prices moved down from their midwinter peaks. In wheat, corn, and some other commodities, activity was at even higher levels than in the summer and fall of 1950.

The immediate effect of the General Ceiling Price Regulation on the futures markets for fiber and oilseed commodities was to diminish trading volume. Trading in cottonseed oil, cotton, and wool tops, was suspended by the exchanges and was not resumed until February 13, March 8, and April 9, respectively, when specific ceilings were

established for these commodities. Futures prices of soybeans, oils, and oil meals, were placed under specific ceilings, effective February 13. In these commodities there was diminished trading in old-crop futures, which advanced to ceiling levels, but there was a large volume of trading in new-crop futures which sold consistently below ceilings.

In April and May, prospects of large 1951 crops and other factors weakened futures prices of most commodities, and there were relatively large futures markets as prices declined. In cotton and soybeans, prices of old-crop May futures remained at ceiling levels until their expiration, but thereafter new-crop futures dropped further below ceilings. In June and July, trading remained active as prices of most commodities declined.

## RÉSUMÉ OF REGULATORY WORK

Preparatory work and public hearings looking toward the establishment of limits on speculation by large traders in soybeans and eggs were completed during the year. The limits established by the Commodity Exchange Commission were announced August 15, 1951, effective October 1, 1951. Speculative limits have proved a strong deterrent to market abuses in grains and cotton, and similar limits in soybeans and eggs should help to protect the marketing of these commodities, also, from the effects of heavyweight speculative operations.

In addition to maintaining a daily surveillance of the accounts of speculators and hedgers in the "large trader" classifications, the Commodity Exchange Authority made special surveys of the accounts of all traders in cotton, small and large, on the New York Cotton Exchange and in wool tops on the New York futures market. Similar surveys were made of trading in all accounts in selected wheat and soybean futures on the Chicago Board of Trade.

An average of more than 1,000 exchange clearing firms, brokerage houses, and large commodity traders, were in daily reporting status to the CEA during the year. Reports received provided basic data needed for enforcement of the act, and for the daily CEA releases providing information to the trade and the public on volume of trading and open contracts in the various markets.

In administrative proceedings, evidence based on CEA investigations was presented to support formal complaints against several large speculators charged with violations of the act. In two instances large traders were suspended from the markets for willful failure to report their transactions. The sanctions which were imposed on several other large speculators charged with attempted price manipulation and other violations were stayed when the respondents appealed to the courts. The operations of certain other large speculators were kept under close observation.

In the continuing work of enforcing required standards in floor trading practices and the registration of futures prices, a special survey was made during the year on the Kansas City Board of Trade, similar to previous surveys on the New York Produce Exchange and the New York and New Orleans cotton exchanges.

Among other continuing enforcement activities, the Authority registered 629 persons and firms as futures commission merchants and 780

persons as floor brokers. The number of registrants in each category was little changed from the previous year.

The books and records of futures commission merchants were audited during the year to determine whether they were making proper accounting of the funds of their customers.

Bylaws, rules, regulations, and resolutions of the exchanges were carefully analyzed during the year, and corrective measures taken whenever rules or amendments were proposed or adopted contrary to provisions of the act. The purpose of this work is to determine whether the exchanges, as reflected by their current rules and regulations, are complying with requirements respecting the prevention of price manipulation and corners, and with other provisions of the act relating to trading practices, price registration, and delivery procedures.

## SPECIAL MARKET SURVEYS

Seven market-wide surveys were made during the year dealing with special enforcement problems. Although the required daily reports to the CEA from brokerage houses and large traders provide basic data for day-to-day surveillance of a considerable proportion of trading, the facts on a larger proportion of traders' accounts, or on the accounts of all traders in a market, are needed in unusual market situations, such as those involving broad speculative movements and sharp price fluctuations.

In the marketwide surveys detailed information is obtained on all, or a large proportion, of traders in the market concerned, as of the date of the survey. Usually, the information obtained includes the name, address, and occupation of each trader, the amount of his trades or positions, or both, and the character of the transactions: i. e., whether speculative or hedging. In some surveys this information is obtained through special "calls," requiring brokerage houses to report the data on each customer's account, while in other surveys CEA examiners take off the information from brokerage house records.

The special surveys made during the year included the following commodities and markets:

| Commodity | Market | Coverage | Period or date |
|---|---|---|---|
| Wheat | Chicago Board of Trade. | All trades, December future. | July 21, 1950. |
| Soybeans | do | All trades, November future. | Do. |
| Cotton | New York Cotton Exchange. | All trades, December future. | July 26, 1950. |
| Do | do | All trades, December, March, May, July, futures. | Oct. 9–14, 1950. |
| Do | do | All positions, all futures. | Nov. 30, 1950. |
| Wool tops | Wool Associates of the New York Cotton Exchange. | do | July 31, 1950. |
| Do | do | All trades, all positions, all futures. | Aug. 28–30, 1950. |

## SPECULATIVE LIMITS ESTABLISHED FOR SOYBEAN FUTURES

Following public hearings on February 5 and 6, and April 2, 1951, the Commodity Exchange Commission fixed a speculative limit for large traders in soybean futures, effective October 1, 1951. The limit for any trader is 1,000,000 bushels on the net long or net short position in one future or in all futures combined on one contract market. The same amount is the maximum which any person may buy or sell speculatively on one contract market during one business day.

Under the Commodity Exchange Act, the Commodity Exchange Commission, consisting of the Secretary of Agriculture, Secretary of Commerce, and the Attorney General, is authorized, after public hearings, to fix speculative limits applicable to any commodity under the act. Speculative limits for grains other than soybeans have been in effect since 1938, and for cotton since 1940. Soybeans were not included under the act until 1940, and so were not covered by the Commission's order of 1938.

Trading in soybean futures on the Chicago Board of Trade was substantial in 1941, but was curtailed in 1942 and suspended entirely during most of the wartime period. In the past few years, however, futures trading in soybeans has greatly exceeded the prewar volume, and in the 1949 crop year accounted for nearly 40 percent of the trading in all grain futures.

Evidence presented at the hearings of the Commodity Exchange Commission showed that the ratio of futures trading in soybeans to quantity sold from the farm greatly exceeded the corresponding ratios for wheat, corn, and oats. It was also shown that the bulk of trading in soybean futures was speculative, and that hedging transactions accounted for a relatively small proportion of the total volume.

CEA witnesses demonstrated that soybean futures were subject to pronounced and rapid price changes, that daily fluctuations were wide compared with other grains, and that daily price ranges in soybeans were greater on days of large trading than on days of smaller volume. Analyses of the purchases and sales of large speculators showed the same relationship to price changes as had been found in earlier analyses for other commodities; i. e., as the size of their purchases increased it became more and more likely that the price would increase, and that as the size of their sales increased it was more likely that the price would decrease.

Evidence presented indicated that in wheat, cotton, and other commodities, futures trades amounting to approximately 2 percent of total open contracts definitely affected prices. It was recommended therefore that speculative limits for soybeans should not permit trades exceeding approximately 2 percent of the average level of open contracts in a representative period.

The Commission adopted the 1,000,000-bushel limit after consideration of the evidence presented. The limit applies to all speculative positions and daily trades, including spreads. It does not apply to bona fide hedging.

## SPECULATIVE LIMITS FOR EGG FUTURES

In a separate order the Commodity Exchange Commission also established limits for speculative trading and positions in egg futures. This order, which was based on the presentation of evidence at public hearings held concurrently with those for soybeans, also became effective October 1, 1951.

Evidence introduced by the Authority in the hearings on egg futures showed significant relationships between the size of large traders' positions and price movements. The results of several CEA investigations of trading in the Chicago market over a period of 5 years were also summarized. These included the investigations of trading in the December 1947 future which resulted in Government proceedings against a group of large speculators charged with attempted manipulation and cornering the market, and the heavy speculation and erratic prices which forced suspension of trading in the October 1949 egg future.

Particular attention was given to the pronounced seasonal aspects of egg marketing and futures trading. Characteristically, trading conditions in the "accumulative" period in the spring and summer, when eggs are going into storage, differ greatly from trading conditions during the "withdrawal" period in the fall and early winter.

Refrigerator egg futures contracts, which account for 90 percent or more of trading, mature only during the withdrawal period; stocks from one season's accumulation are completely exhausted at the end of the season. Daily price changes and volume of trading were shown to be greater in the withdrawal period than in the accumulative period. Since the evidence showed that the impact of speculation on prices was greater during the withdrawal period, the Authority recommended that speculative limits for futures expiring in this period be lower than for futures expiring in the accumulative period.

After considering the evidence, the Commodity Exchange Commission fixed 150 carlots as the maximum net long or net short speculative position which any person may hold or control in one future or in all futures combined on one contract market, provided that no position may at any time exceed the following limits: 100 carlots in the October egg future, 75 carlots in the November egg future, 50 carlots in the December egg future, and 50 carlots in the January egg future. These limits were also established by the Commission as the maximum amount of egg futures which any person may buy or sell on any contract market during one business day. The limits apply to all speculative trades and positions, including spreads. They do not apply to bona fide hedging transactions.

## FUTURES TRADING IN GRAIN SORGHUMS

After an interval of approximately 2 years, futures trading in grain sorghums on the Kansas City Board of Trade was resumed in December 1950, and in the ensuing months an active market developed. The volume to the end of the fiscal year, amounting to 41,225,000 bushels, was much larger than in any full year since trading in the commodity began on the Kansas City market in 1944.

Grain sorghums have been of increasing commercial importance in recent years. With greater demand for the commodity during the World War II period, production increased sharply, from 85,824,000 bushels in 1940 to a record 237,456,000 bushels in 1950. Texas, Kansas, and Oklahoma are leading production States.

While the larger part of the crop has always been fed to livestock, during and since World War II an increasing proportion has been used for alcohol and other industrial purposes. Over the past few years substantial quantities of grain sorghums have been exported to India and other Far Eastern countries where the commodity is used as a food grain for human consumption.

With greater production, supplies of grain sorghums in United States commercial channels have also increased, both in physical volume and dollar value. In the 1951 fiscal year, United States commercial stocks of grain sorghums at the peak, reached on January 20, 1951, were 24,850,000 bushels, with an estimated value of $36,251,000. (For comparison, United States commercial stocks of oats at the year's peak, on October 7, 1950, were 22,125,000 bushels, with an estimated value of $17,038,000; and commercial stocks of soybeans at the year's peak, on December 2, 1950, were 16,157,000 bushels, with an estimated value of $47,178,000.)

As prices of grain sorghums advanced during the winter of 1950–51, activity in the Kansas City futures market increased, the largest trading volume being registered in February. Analysis of the market by the CEA, based on data from traders in reporting status, showed speculators holding the bulk of the long positions, with merchandisers reporting substantial short hedging positions and accounting for the greater portion of the short side. Reported short hedging commitments and total open contracts in the market reached highest levels in April when stocks of grain sorghums at Kansas City were the largest of the fiscal year, and United States commercial stocks near the year's peak level.

## SPOT EGG TRADING IN NEW YORK CITY

During the year the CEA gave special attention to trading practices in spot eggs on the New York Mercantile Exchange and related problems involved in the marketing and pricing of eggs in the New York City area. The CEA has received complaints from producers and trade groups regarding egg marketing practices in New York City.

Eggs are marketed in New York at prices based to some extent on quotations registered in spot egg trading on the New York Mercantile Exchange. The volume of such trading is relatively small. Trading on the spot board is conducted in quantities as small as 25-case lots. Price quotations arising from trades in very small quantities of eggs—or quotations established from bids or offers involving no actual trades at all—may be used as a basis for pricing carlot quantities of eggs marketed in New York City and adjoining areas.

Investigations in the market raised the question whether the rules and trading procedures on the New York Mercantile Exchange met the requirement of the Commodity Exchange Act that commodities

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traded in on a contract market shall be sold under such conditions as to reflect fairly the general value of the commodity, and the further requirement that the governing board of a contract market shall provide for prevention of price manipulation.

The Authority invited representatives of producer, consumer, and trade groups to present their views on the problem in a public conference which was held in Washington on May 10, 1951. Representatives attended from producer groups, cooperative associations, and the New York Mercantile Exchange.

The method of publishing price quotations on spot egg transactions in New York, and whether this method reflects true market values, were discussed at the conference. Recommendations were made to diminish or eliminate the effect on prices of questionable "last-second" bids and offers on the New York Mercantile Exchange. Consideration was given to the question of grades—whether trading on the New York Mercantile Exchange should be conducted in grades conforming to United States standards instead of the exchange grades now being used. The question of producer representation was discussed, and whether producer groups, such as cooperative associations, should be represented on the governing board and committees of the New York Mercantile Exchange.

While the discussions were informally conducted, and of an exploratory nature, the views and data presented at the conference were transcribed, and the record made available for further study.

Following the Washington conference the New York Mercantile Exchange began extending the trading session at the close whenever necessary to provide adequate time for the acceptance of bids or offers made in the last moments of trading.

## MARGINS ON SPECULATIVE TRADING

CEA reports published in July and August 1950 pointed out that low margin requirements for speculative trading in commodity futures contributed to the sharp rise in commodity prices following the outbreak of the conflict in Korea. With minimum margins of the exchanges at levels of 10 to 15 cents on the dollar of contract value, speculators could buy relatively large amounts of commodity futures with relatively small cash margin payments.

Beginning late in July 1950, leading exchanges made limited increases in speculative margin rates. Reductions were made, however, in the latter part of the fiscal year, and by June 30, 1951, speculative margins were but little changed from one year earlier when the Korean conflict began. On June 30, 1951, they ranged from approximately 6 to 15 percent for all but two of the commodities for which data are shown in table 1. The comparable range one year earlier was 6 to 13 percent. Rates above 15 percent on June 30, 1951, applied only to potatoes (New York Mercantile Exchange) and the July cotton futures (New York and New Orleans cotton exchanges). The rates on all other cotton futures on the New York Cotton Exchange ranged from 8.4 to 11.1 percent, and on the New Orleans Cotton Exchange from 5.9 to 8.5 percent.

TABLE 1.—*Speculative margins: Minimum initial margin required by exchanges, and margin as percent of closing price of near future, for specified commodities and markets, June 30, 1951*

| Commodity | Market | Unit | Contract | Margin per— Unit | Margin per— Contract | Price per— Unit | Price per— Contract | Margin as percent of price [1] |
|---|---|---|---|---|---|---|---|---|
| | | | | *Dollars* | *Dollars* | *Dollars* | *Dollars* | |
| Wheat | Chicago Board of Trade | Bushel | 5,000 bushels | 0.25 | 1,250 | 2.30¾ | 11,538 | 10.8 |
| Do | Kansas City Board of Trade | do | do | .20 | 1,000 | 2.27⅝ | 11,381 | 8.8 |
| Do | Minneapolis Grain Exchange | do | do | .20 | 1,000 | 2.28 | 11,400 | 8.8 |
| Corn | Chicago Board of Trade | do | do | .12 | 600 | 1.66¼ | 8,312 | 7.2 |
| Oats | do | do | do | .09 | 450 | .72 | 3,600 | 12.5 |
| Rye | do | do | do | .15 | 750 | 1.78⅞ | 8,944 | 8.4 |
| Soybeans | do | do | do | .30 | 1,500 | 2.95⅞ | 14,794 | 10.1 |
| Flaxseed | Minneapolis Grain Exchange | do | 1,000 bushels | .50 | 500 | 3.41 | 3,410 | 14.7 |
| Grain sorghums | Kansas City Board of Trade | Hundredweight. | 2,800 hundredweight | .22 | 616 | 2.35½ | 6,594 | 9.3 |
| Cotton | New York Cotton Exchange | Pound | 100 bales | .08 | 4,000 | [2].446 | 22,300 | 17.9 |
| Do | New Orleans Cotton Exchange | do | do | .07 | 3,500 | [2].444 | 22,200 | 15.8 |
| Wool tops | Wool Associates of the New York Cotton Exchange. | do | 5,000 pounds | .35 | 1,750 | 2.47½ | 12,375 | 14.1 |
| Butter | Chicago Mercantile Exchange | do | 20,000 pounds | .04 | 800 | [2].692 | 13,840 | 5.8 |
| Eggs | do | Dozen | 14,400 dozen | .07 | 1,000 | [2].517 | 7,445 | 13.5 |
| Potatoes | New York Mercantile Exchange | Hundredweight. | 500 hundredweight | .48 | 240 | 2.00 | 1,000 | 24.0 |
| Cottonseed oil | New York Produce Exchange | Pound | 60,000 pounds | .02 | 1,200 | [2].178 | 10,680 | 11.2 |
| Soybean oil | do | do | do | .02 | 1,200 | [2].143 | 8,580 | 14.0 |
| Lard | Chicago Board of Trade | do | 40,000 pounds | .02 | 800 | [2].150 | 6,000 | 13.3 |
| Bran | Kansas City Board of Trade | Ton | 120 tons | 6.00 | 720 | 47.85 | 5,742 | 12.5 |
| Shorts | do | do | do | 6.00 | 720 | 54.15 | 6,498 | 11.1 |
| Cottonseed meal | Memphis Merchants Exchange Clearing Association. | do | 100 tons | 7.50 | 750 | 74.00 | 7,400 | 10.1 |
| Soybean meal | do | do | do | 7.50 | 750 | 72.50 | 7,250 | 10.3 |

[1] Figures rounded to nearest tenth of 1 percent.
[2] Figures rounded to nearest thousandth of a dollar.

## FUTURES TRADING IN COMMODITIES UNDER SPECIFIC PRICE CEILINGS

Subsequent to the General Ceiling Price Regulation of January 26, 1951, the Office of Price Stabilization established specific price ceilings on futures transactions for a number of fiber and oilseed commodities. For these commodities the specific ceilings replaced the pricing provisions of the general order of January 26. The section which follows is concerned with futures trading in these commodities from the dates the specific ceilings affected trading on the exchanges to the end of the fiscal year on June 30, 1951.

A uniform ceiling of $3.33 per bushel on sales of soybean futures was established by the OPS effective February 13, 1951. Also effective February 13, specific ceilings were established by OPS on all futures transactions in soybean oil (20.50 cents per pound) and in cottonseed oil (26.40 cents per pound). On the same date, specific ceiling prices of $82.05 per ton for cottonseed meal futures transactions and $80.50 per ton for soybean meal (sacked basis), were fixed by the Memphis futures exchange in conformity with OPS regulations. As of March 8, a uniform OPS ceiling price of 45.39 cents per pound came into operation on cotton futures trading. On April 6, OPS established a specific ceiling of $4.265 per pound on wool top futures (reduced to $3.895 on May 28).

After the establishment of these specific ceilings, prices of "old-crop" futures in soybeans, oils, oil meals, and cotton were at ceiling levels for various periods. These old-crop futures, mainly the March, May, and July contracts, called for deliveries from existing stocks, which were in limited supply, while buyers were aggressively reaching for supplies. With relatively large amounts of old-crop open contracts outstanding, particularly in cotton and cottonseed oil in which futures trading was suspended for some time, the liquidation of outstanding contracts seemed to present serious problems.

The exchanges authorized various measures to curb the effect of speculation on prices of old-crop futures and facilitate the orderly liquidation of these contracts. Just prior to the reopening of the cotton markets on March 8, the New York Cotton Exchange extended until March 23 the period for trading and issuance of delivery notices in the March 1951 future. The exchange restricted trading in the March future to liquidating transactions, except for new sales for delivery by March 29. Corresponding restrictions were placed on trading in the May 1951 cotton future during the final weeks of trading in that contract.

When the cotton markets reopened on March 8, there was a heavy accumulation of buying orders, including those of shorts rushing to cover. All trading in the old-crop March and May futures on the New York Cotton Exchange was at the ceiling price of 45.39 cents per pound. Two-thirds of the record volume of trading on the New York market on March 8, amounting to 1,028,500 bales, was in the old-crop futures at the ceiling price.

Prices of the March 1951 contract were continuously at the ceiling level until the close of the trading period in that future on March 23, and during this period trading was restricted substantially to liquidation. Most of the contracts outstanding when the market was reopened were liquidated by trades during this period. On March 22 the Board

of Managers of the New York Cotton Exchange resolved that an "emergency situation" existed, and that all March 1951 futures contracts remaining open on March 23, except those to be fulfilled by delivery, should be liquidated at a settlement price to be determined. Subsequently, a price of 45.39 cents per pound was approved for the settlement of contracts for 38,200 bales which had not been liquidated by trading or delivery.

It was not until April 20 that trading in the May 1951 cotton future was restricted to liquidation of contracts, except new sales by those in a position to deliver actual cotton. In the period from March 8 through April 19, excluding April 5, prices were continuously at the ceiling. In this period the total trading volume in the old May future was 1,129,900 bales, while open contracts in the future were reduced by only 281,100 bales. As indicated by these totals, and by daily trading figures, there was substantial in-and-out trading on many days, and on eight days in March there was an increase in open contracts. It was evident that shorts as well as longs were willing to enter into new positions at the ceiling price. From April 20 to the expiration of the future on May 14, trading was limited primarily to liquidation; the trading volume during this period totaling 333,400 bales closely approximated the reduction in open contracts.

Prices of the March and May futures in soybeans, soybean oil, cottonseed oil, and cottonseed meal were at or near ceiling levels most of the time until these contracts expired. The New York Produce Exchange placed restrictions on trading in March and May cottonseed oil futures comparable to those on cotton, and the Chicago Board of Trade took similar action with respect to May soybeans and soybean oil. Before these restrictions were imposed, on numerous days when all trades were at ceiling prices, a portion of the trading was new buying and selling.

The old-crop July futures in cotton, soybeans, and cottonseed oil and meal also reached ceiling levels at various times during the late winter and spring of 1951. By the end of May, however, the prices of these July futures had dropped below ceilings.

In table 2 summary information is presented for the commodities with specific ceiling prices in the fiscal year. The table shows the OPS ceilings, and the effective dates, and also the futures which reached ceilings on one or more trading days. From these data it is clearly evident that only the old-crop futures were affected, and that by the latter part of May even the remaining old-crop futures were below ceilings.

The contrast between old- and new-crop futures is also readily seen by the complete absence of new-crop futures from the table. During the late winter and spring of 1951, trading in new-crop futures in the fiber and oilseed commodities continued in relatively large volume below ceilings.[1]

The wool top futures market did not exhibit all of the characteristics shown in other markets in that prices did not reach the OPS

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[1] In cottonseed oil one new-crop future (1951 September) reached the ceiling level of 26.40 cents per pound on one day, February 13, 1951. The September soybean future, which has some elements of a new-crop future, sold at the ceiling ($3.33 per bushel) from February 13 to 27, 1951. The September soybean oil future reached the ceiling (20.50 cents per pound) on one day, February 13, 1951.

TABLE 2—*Specific OPS ceiling prices on futures, closing price of near future last trading day prior to ceiling on specified markets, and futures reaching ceiling, 1951 fiscal year*

| Commodity | Market | Unit | Closing price of near future last trading day prior to ceiling | | Ceiling price | | Futures reaching ceiling | First and last date future at ceiling | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Date | Price | Amount | Date effective | | First | Last |
| Cotton | New York | Pound | Jan. 26 [1] | 44.25 cents | 45.39 cents | Mar. 8 | March | Mar. 8 | Mar. 23 |
| | | | | | | | May | do | May 14 |
| | | | | | | | July | Mar. 19 | Mar. 26 |
| Soybeans | Chicago | Bushel | Feb. 10 | $3.38⅛ | $3.33 | Feb. 13 | March | Feb. 13 | Mar. 22 |
| | | | | | | | May | do | May 22 |
| | | | | | | | July | do | May 21 |
| | | | | | | | September | do | Feb. 27 |
| Soybean oil | New York | Pound | do. [2] | 21.05 cents | 20.50 cents | do | March | do | Mar. 19 |
| | | | | | | | April | do | Apr. 13 |
| | | | | | | | May | do | May 1 |
| | | | | | | | July | do | Apr. 24 |
| | | | | | | | September | do | Feb. 13 |
| Cottonseed oil | do | do | Jan. 26 [3] | 26.36 cents | 26.40 cents | do | March | do | Mar. 19 |
| | | | | | | | May | do | May 14 |
| | | | | | | | July | do | Apr. 24 |
| | | | | | | | September | do | Feb. 13 |
| Soybean meal | Memphis | Ton | Feb. 10 | $71.80 | $80.50 [4] | do | March | Feb. 15 | Feb. 15 |
| | | | | | | | July | do | do. |
| Cottonseed meal | do | do | do | $79.25 | $82.05 [5] | do | March | Feb. 13 | Mar. 2 |
| | | | | | | | May | Feb. 14 | May 21 |
| | | | | | | | July | do | May 18 |
| Wool tops | New York | Pound | Jan. 26 [6] | $4.125 | $4.265 | Apr. 6 | None | | |
| | | | | | $3.895 | May 28 | None | | |

[1] Trading on the New York Cotton Exchange (and on the New Orleans Cotton Exchange and the Chicago Board of Trade) suspended prior to the opening on January 27, 1951; resumed March 8, 1951.

[2] Trading on the New York Produce Exchange suspended for one day only, January 27, 1951. Trading on the Chicago Board of Trade was not suspended.

[3] Trading on the New York Produce Exchange (and on the New Orleans Cotton Exchange) suspended prior to the opening on January 27, 1951; resumed February 13, 1951.

[4] Fixed by the exchange in conformity with OPS regulation, on the March, May, and July futures (sacked basis). Exchange ceiling price of $74 per ton on the October, December, and subsequent futures (bulk basis).

[5] Fixed by the exchange in conformity with OPS regulation.

[6] Trading suspended prior to the opening on Monday, January 29, 1951. (Saturday is not a trading day on the exchange.) Trading resumed Monday, April 9, 1951.

ceiling. Trading on the exchange was suspended for a longer period than was the case for any other commodity.[2] The March 1951 contract, the last old-clip future, expired before the market reopened, and the contracts left outstanding were settled by an exchange directive at the January 26 closing price of $4.125 per pound. Thus, when the market reopened on April 9 there was trading only in new-clip futures. Prices in the April–June 1951 period were always below the specific ceiling price, even after the reduction of the ceiling to $3.895 per pound on May 28.

## CONTRACT MARKETS UNDER SUPERVISION

The CEA supervises futures trading on commodity exchanges designated under the Commodity Exchange Act [3] as contract markets. The following list shows the 18 commodity exchanges which are designated as contract markets, and the 20 commodities in which futures trading was conducted under CEA supervision during the year.

| *Market* | *Commodity* |
|---|---|
| Chicago Board of Trade | Wheat, corn, oats, rye, soybeans, soybean oil, lard, cotton. |
| Chicago Mercantile Exchange | Butter, eggs, potatoes. |
| Chicago Open Board of Trade | Wheat, corn, oats, rye, soybeans. |
| Duluth Board of Trade | (No trading in 1950–51). |
| Kansas City Board of Trade | Wheat, corn, grain sorghums, bran, shorts. |
| Los Angeles Grain Exchange | (No trading in 1950–51). |
| Memphis Merchants Exchange Clearing Association. | Cottonseed meal, soybean meal. |
| Milwaukee Grain Exchange | Wheat, corn, oats, rye. |
| Minneapolis Grain Exchange | Wheat, oats, rye, flaxseed, soybeans. |
| New Orleans Cotton Exchange | Cotton, cottonseed oil. |
| New York Cotton Exchange | Cotton. |
| New York Mercantile Exchange | Eggs, butter, potatoes, rice. |
| New York Produce Exchange | Cottonseed oil, soybean oil. |
| Portland Grain Exchange | (No trading in 1950–51). |
| St. Louis Merchants' Exchange | (No trading in 1950–51). |
| San Francisco Grain Exchange | (No trading in 1950–51). |
| Seattle Grain Exchange | Wheat. |
| Wool Associates of the New York Cotton Exchange. | Wool tops. |

Most of the commodities under the act were traded in on more than one market. Thus, there were 6 futures-trading markets in wheat, 4 in corn, 4 in oats, 3 in cotton, and so on. The total number of commodity futures markets in which trading was conducted under the act during the year was 43, compared with 40 in the previous year. The larger number in 1950–51 compared with the previous year was accounted for by the inauguration of futures trading in soybean oil on the Chicago Board of Trade, and in soybeans on the Minneapolis Grain Exchange; and the resumption of futures trading in grain sor-

[2] Trading suspended prior to the opening on Monday, January 29, 1951. (Saturday is not a trading day on the Exchange.) Trading resumed Monday, April 9, 1951.

[3] The Commodity Exchange Act applies to the following commodities: Wheat, corn, oats, rye, barley, flaxseed, grain sorghums, millfeeds, cotton, rice, butter, eggs, Irish potatoes, wool tops, fats and oils, cottonseed, cottonseed meal, peanuts, soybeans, and soybean meal.

ghums on the Kansas City Board of Trade, and in butter on the New York Mercantile Exchange. The total for the year excludes corn at Minneapolis, in which there was nominal trading in 1949–50 but none in 1950–51.

The Chicago Board of Trade was designated by the Secretary of Agriculture on June 30, 1950, as a contract market for soybean oil, and trading began on July 17, 1950. The Minneapolis Grain Exchange was designated on September 11, 1950, as a contract market for soybeans, and the first trade in the commodity on that market was made on September 20, 1950.

## REGISTRATION OF COMMODITY BROKERS

Trading on commodity exchanges consists of trading by exchange members and trading by "outside customers," i. e., traders who are not members of exchanges. Outside customers have their trades executed for them by exchange members who act as brokers for customers, charging a fee or commission for their services. Commodity brokers and brokerage firms, known as futures commission merchants, maintain offices in the principal cities throughout the United States and in some foreign countries. Through these offices the buying and selling orders of commodity customers at widely separated points are brought together for execution on the exchanges.

As a means of regulating brokerage activities, the Commodity Exchange Act requires the annual registration of futures commission merchants, who must make proper accounting of customers' funds entrusted to them.

Under the act, any commodity broker or other person or firm engaged in soliciting or accepting orders for the purchase or sale of commodity futures on a contract market is required to register as a futures commission merchant each year. Floor brokers, who are engaged in the execution of customers' orders on the floor of an exchange, are also required to register annually. The payment of annual registration fees for deposit in the United States Treasury is required of all registrants.

The number of registrations of futures commission merchants in the fiscal year ended June 30, 1951, was 629, compared with 628 in the preceding fiscal year. Registrations of floor brokers numbered 780, compared with 783.

As of June 30, 1951, registered futures commission merchants were maintaining a total of 1,780 principal and branch offices, and had agents in 236 other offices. The comparable figures one year earlier were 1,752 principal and branch offices maintained by registrants, and 226 other offices. At the end of the 1951 fiscal year the offices of futures commission merchants and their agents were located in 47 States, the District of Columbia, Hawaii, Puerto Rico, and 15 foreign countries.

A breakdown of the number of futures commission merchants registered for the calendar year 1951, up to June 30, showed that 52 percent were partnerships, 28 percent were corporations, and 20 percent were sole proprietorships.

## AUDITS OF BROKERAGE FIRMS

The Commodity Exchange Act requires all futures commission merchants to segegrate and separately account for the funds of their customers. They may not commingle customers' funds with the funds of the brokerage firm, nor use them to extend credit to others. The purpose of the segregation provisions of the act is to prevent the misuse of the funds of one customer to finance the trading of another customer, and to safeguard the markets generally against improper brokerage practices in the handling of customers' funds.

To determine compliance with the segregation requirements, the CEA made 641 audits of futures commission merchants during the 1951 fiscal year, compared with 695 audits during the preceding year. The audits during the recent year included all brokerage firms which are clearing members of the various exchanges, and most of the nonclearing firms. Although the number of audits during the recent year was somewhat smaller than in the previous year, the average number of customers' accounts covered per audit was somewhat larger.

The number of segregation audits made by the CEA in the past four fiscal years, the number of commodity accounts covered, and the amount of customers' funds in these accounts were as follows:

| | Segregation audit data | | |
|---|---|---|---|
| Fiscal year ended June 30: | *Audits (number)* | *Accounts examined (number)* | *Customers' funds (dollars)* |
| 1948 | 621 | 26, 165 | 139, 234, 712. 14 |
| 1949 | 751 | 28, 064 | 122, 811, 161. 67 |
| 1950 | 695 | 25, 768 | 93, 768, 639. 44 |
| 1951 | 641 | 25, 787 | 145, 602, 818. 23 |

The audits showed that the great majority of futures commission merchants continued to maintain a generally good record of compliance with the segregation requirements. The deviations disclosed by the accountants were primarily of the same type as in former years. These included failure to keep the proper amount of customers' funds segregated, improper transfers of customers' funds, and mixing customers' funds and trades with those of the brokerage house.

In connection with examinations of segregation records, the auditors discovered instances of failure to file required reports, failure to register as futures commission merchant, and the carrying of speculative long and short positions open in the same future, contrary to section 1.46 of the rules and regulations.

In most cases deviations resulting from carelessness or misunderstanding of the requirements were corrected promptly when called to the attention of the firms involved. More serious infractions were handled by warning letters or stipulations of compliance. Special audits were made of the books and records of traders and brokerage firms charged with violations of the act, or suspected of such violations.

## DAILY REPORTS FROM BROKERS AND LARGE TRADERS

For the enforcement of the act it is essential to have current information on the activity of traders—the volume of trading in the various commodities, the amount of open contracts, and deliveries. The

CEA obtains this information through a reporting system developed over a period of 25 years. It receives daily reports from brokerage firms which are members of the clearing association of an exchange. Each clearing firm reports daily, after the close of the market, the volume of trading by its customers and by the firm itself. The brokerage firm also reports the aggregate of all long and short positions (open contracts) on its books at the close of each day. The data from the individual firms, when tabulated by the CEA, show the over-all picture of trading and open contracts in the various markets and commodities.

Confidential information on the daily market operations of individual large traders is also provided by the reporting system. Large traders, known as "special account" traders, are those who have positions in excess of amounts fixed by the Secretary of Agriculture under authority of the act. In cotton, for example, the special-account reporting level is 5,000 bales in any one future on any one contract market. As long as a trader is in special-account status he must make daily reports giving in full the amounts of his trading in all futures and on all markets, and the classification of his positions as speculative, spreading, or hedging. Also, as a means of checking in case the trader fails to report, or reports incorrectly, futures commission merchants carrying a position of reportable size for a trader are required to report the amount of such positions. In cases where a trader carries large positions with several brokerage firms, the over-all positions as shown on his own report must, of course, agree with the aggregate of the amounts reported by the several carrying brokers.

One of the purposes of the large-trader reports is to enforce compliance with the limits which are maintained on the size of speculative trades and positions in grains, cotton, and eggs. These limits do not apply to bona fide hedging as defined in the act. As a basis for determining whether positions reported as hedges meet the standards of the act, merchants and processors are required to file a weekly report with the CEA showing their actual cash-grain or spot-cotton positions.

To provide more adequate information on hedgeable positions in cotton, the requirements with respect to the weekly report on spot cotton were revised near the close of the year. Formerly only merchants and processors with 20,000 bales or more in one future on one market had to fill in the section of the report showing long and short fixed-price spot-cotton positions. Under the revision effective July 30, 1951, all persons required to file the weekly report (those with 5,000 bales or more in one future on one market) must fill in this section of the report. The special report formerly required as of July 31 of each year was eliminated, and more flexibility was allowed with respect to the accounting periods used in preparing reports.

For all regulated commodities, a total of 505,752 reports were made to the CEA during the year by exchange clearing members, futures commission merchants, and individual large traders. The number received in the previous year was 451,224 (revised). The 12-percent increase in reports was due to the somewhat large number of special-account traders in several commodities, including grains, cotton, eggs, cottonseed oil, and soybean oil. The following tabulation shows the

number of reports processed by each of the 5 CEA field offices during the 1950 and 1951 fiscal years.

| | Number of reports processed | |
|---|---|---|
| Office: | 1950 (revised) | 1951 |
| Chicago | 243, 822 | 266, 685 |
| New York | 93, 085 | 111, 876 |
| Minneapolis | 51, 538 | 55, 558 |
| Kansas City | 36, 735 | 44, 661 |
| New Orleans | 26, 044 | 26, 972 |
| | 451, 224 | 505, 752 |

Of the 505,752 reports submitted in the 1951 fiscal year, 273,800 were by exchange clearing members showing volume of trading and open contracts, and 231,952 by traders in special account status and by brokerage firms and exchange members reporting special account data.

Tabulation and analysis of data from the reports received during the year provided day-to-day information on over-all market activity, and on large-scale trading by professional speculators. The reports also served as a guide to accounts requiring close examination or special investigation for evidence of manipulation or other violations of the act.

Data from the reports were of particular value during the year in providing a factual basis for the establishment of limits on speculative trading and positions in soybeans and eggs (see pp. 5–6), in presenting evidence against traders and brokers formally charged with violations of the act, and in providing information to the Congress and to the public on speculative activity and hedging in the markets.

In six instances during the year warning letters or similar formal notices were sent to traders to obtain compliance with the reporting requirements; and in two instances, after formal proceedings, traders were suspended from the markets for wilful failure to report. Such disciplinary measures, however, involved only a very small minority of those subject to the reporting requirements. The great majority of traders, brokers, and exchange clearing firms, cooperated in filing the reports, which are necessary for effective market regulation and public information on trading.

## VOLUME OF TRADING

Table 3 shows the volume of futures trading on all contract markets during the fiscal year ended June 30, 1951.

In comparison with the previous fiscal year, activity in 1950–51 increased sharply, and to some extent resembled the period in 1946–47 and 1947–48 when the futures markets were influenced by inflationary forces.

Activity was greater during the year in 17 of the 20 commodities in which there was futures trading. Increases over the previous year were reflected in wheat, corn, oats, cotton, wool tops, fats and oils, and feedstuffs. In each of 5 commodities—cottonseed oil, soybean oil, soybean meal, eggs, and grain sorghums—the volume was the largest on record.

Trading in all grains on all markets amounted to 12,105,000,000 bushels during the year, an increase of 5.6 percent compared with the 1950 fiscal year, and an increase of 44.7 percent compared with the average for the 10-year period, 1941–1950. Increased activity in wheat, corn, and oats, more than offset decreases in soybeans and rye.

The trading volume in wheat on all markets amounted to 4,675,715,000 bushels, and in corn 2,236,588,000 bushels, representing increases in each instance of about 11 percent as compared with the preceding fiscal year. Oat futures trading amounted to 1,617,253,000 bushels, an increase of 54.3 percent; and rye 576,216,000 bushels, a decrease of 0.9 percent.

Soybean futures trading on the Chicago Board of Trade continued in large volume, although speculative activity in the market was somewhat less intense than in the previous year. Total trading in the commodity during the year, including a small amount on the Chicago Open Board of Trade and the Minneapolis Grain Exchange, amounted to 2,952,610,000 bushels, compared with 3,613,906,000 bushels in the preceding year.

Table 3.—*Volume of futures trading on all contract markets combined, by commodities, fiscal years ended June 30, 1950, and June 30, 1951*

| Commodity | Unit | 1950 | 1951 | Percent of increase or decrease |
|---|---|---|---|---|
| Wheat | 1, 000 bushels | 4, 201, 964 | 4, 675, 715 | +11. 3 |
| Corn | do | 2, 013, 400 | 2, 236, 588 | +11. 1 |
| Oats | do | 1, 048, 240 | 1, 617, 253 | +54. 3 |
| Rye | do | 581, 637 | 576, 216 | —. 9 |
| Soybeans | do | 3, 613, 906 | 2, 952, 610 | —18. 3 |
| Flaxseed | do | [1] 53 | 5, 607 | |
| Grain sorghums | do | 0 | 41, 225 | |
| Rice | 1, 000 pounds | 2, 040 | 2, 880 | +41. 2 |
| Cotton | 1, 000 bales | 52, 697 | 79, 067 | +50. 0 |
| Wool tops | 1, 000 pounds | 48, 290 | 82, 780 | +71. 4 |
| Butter | Carlots | 2, 433 | 3, 236 | +33. 0 |
| Eggs | do | 56, 938 | 148, 811 | +161. 4 |
| Potatoes | do | 6, 592 | 2, 627 | —60. 1 |
| Cottonseed oil | 1, 000 pounds | 4, 534, 680 | 7, 331, 700 | +61. 7 |
| Soybean oil | do | 227, 100 | [2] 3, 532, 620 | +1, 455. 5 |
| Lard | do | 1, 521, 400 | 2, 213, 080 | +45. 5 |
| Bran | Tons | 358, 380 | 406, 800 | +13. 5 |
| Shorts | do | 143, 730 | 173, 670 | +20. 8 |
| Cottonseed meal | do | 478, 300 | 586, 800 | +22. 7 |
| Soybean meal | do | 1, 126, 000 | 2, 292, 000 | +103. 6 |

[1] During the 1950 fiscal year there was trading in flaxseed futures in only 4 months.

[2] Includes 1,961,580,000 pounds on the Chicago Board of Trade where trading began July 17, 1950.

TABLE 4.—*Estimated value of futures trading, all contract markets combined, by commodities, fiscal years ended June 30, 1950, and June 30, 1951*

| Commodity | 1950 | 1951 |
|---|---|---|
| | *1,000 dollars* | *1,000 dollars* |
| Wheat | 9, 038, 425 | 11, 104, 823 |
| Corn | 2, 736, 211 | 3, 786, 543 |
| Oats | 800, 855 | 1, 478, 169 |
| Rye | 825, 343 | 954, 790 |
| Flaxseed | 209 | 22, 742 |
| Soybeans | 9, 251, 599 | 8, 899, 167 |
| Grain sorghums | | 54, 945 |
| Rice, milled | 255 | 373 |
| Cotton | 8, 276, 064 | 16, 726, 624 |
| Wool tops | 85, 763 | 251, 403 |
| Butter | 29, 717 | 42, 437 |
| Eggs | 313, 696 | 903, 223 |
| Potatoes | 8, 306 | 2, 785 |
| Lard | 171, 918 | 359, 847 |
| Cottonseed oil | 648, 459 | 1, 679, 692 |
| Soybean oil | 26, 344 | 625, 274 |
| Bran | 14, 819 | 19, 445 |
| Shorts | 6, 784 | 9, 508 |
| Cottonseed meal | 29, 999 | 45, 594 |
| Soybean meal | 86, 679 | 176, 255 |
| Total | 32, 351, 445 | 47, 143, 639 |

Trading activity in cotton was much larger during the year. The volume on the New York Cotton Exchange, amounting to 58,950,000 bales, was about 58 percent greater than in the preceding fiscal year. The total for the New York and New Orleans exchanges, and the Chicago Board of Trade, was 79,067,000 bales, compared with 52,697,000 bales in the 1950 fiscal year, and an average of 61,615,000 bales for the 10-year period, 1941–50.

There was a marked increase in futures trading in cottonseed oil and soybean oil during the year, and also a larger volume in lard futures. The cottonseed oil volume, principally on the New York Produce Exchange, amounted to 7,331,700,000 pounds, an increase of 61.7 percent over the previous year. Trading in soybean oil on the New York exchange and the Chicago Board of Trade totaled 3,532,620,000 pounds, compared with 227,100,000 pounds on the New York market in the preceding year.

Egg futures trading on the Chicago Mercantile Exchange, after declining in the 1949 and 1950 fiscal years, increased sharply in 1951, the volume exceeding that in any previous fiscal-year period. Trading in butter futures, which had been relatively inactive for several years, showed some increase in 1951.

The futures markets for livestock feedstuffs were more active during the year, including bran and shorts on the Kansas City Board of Trade, and cottonseed meal and soybean meal on the Memphis Merchants Exchange Clearing Association. Of these commodities the largest trading volume was in soybean meal, amounting to 2,292,000 tons, an increase of 103.6 percent over the preceding year.

## OPEN CONTRACTS AND HEDGING

The volume of trading in a futures market is the aggregate of the purchases (or sales) during a day or other period of time. The "open contracts" are the purchase (or sale) commitments which remain outstanding at the end of the day or other point in time.

As pointed out in other CEA reports, data on open contracts do not reflect the in-and-out trades and scalping transactions of professional speculators which are closed out before the end of the day. In the larger futures markets, in-and-out trading and scalping transactions may account for as much as 50 percent of the day's trading volume. Contracts remaining open at the close of the day reflect two general classes of commitments: (1) Speculative commitments of "position" traders; i. e., those holding speculative positions open overnight or for longer periods; and (2) hedging commitments of merchants, dealers, and processors.

Although the volume of trading, including the in-and-out trades and scalping transactions, may vary widely from time to time in response to quickly changing speculative interests and incentives, the amount of open contracts in a commodity tends to change less markedly, and more slowly, from one period to another. Furthermore, although marked changes in volume of trading may or may not be of economic significance in the marketing of agricultural commodities, increasing or declining levels of open contracts are often related to seasonal patterns in marketing, particularly if the marketing of a commodity involves a considerable amount of hedging by merchants, dealers, and processors.

When hedging is a considerable factor in a futures market it will be reflected in open contracts, particularly at times when the commodity is moving from farms into commercial channels. As merchants and processors acquire stocks, and make hedging sales against them, open contracts may tend upward until the peak of the marketing season is reached. Or, if merchants and processors are buying futures in volume to hedge requirements for forward orders for finished goods, this may also be reflected in open contracts. In other situations, of course, the accumulation or liquidation of speculative positions in futures may be a more decisive factor in the trend of open contracts, and may greatly overshadow the hedging commitments in the market.

The amount of hedging in a futures market may also be gaged from the reports to the CEA by merchants, processors, and others having trades and positions of reportable size. Since the reporting traders include the larger merchants and processors who ordinarily hold the bulk of commercial supplies of a commodity, the reported hedging commitments of such traders are generally representative of total hedging commitments in the commodity.

Data on open contracts in all markets and short hedging commitments of reporting traders for the fiscal years 1950 and 1951 are shown in table 5.

For most commodities the average of mid-month and month-end open contracts in the 1951 fiscal year was above the level of the preceding fiscal year. In some commodities increased hedging by mer-

TABLE 5.—*Open contracts and short hedging commitments of reporting traders on all contract markets, average of mid-month and month-end figures, by commodities, fiscal years ended June 30, 1950, and June 30, 1951*

| Commodity | Unit | Open contracts | | Short hedging commitments | | | |
|---|---|---|---|---|---|---|---|
| | | | | Amount | | Percent of open contracts [1] | |
| | | 1950 | 1951 | 1950 | 1951 | 1950 | 1951 |
| Wheat | Million bushels | 85. 9 | 97. 5 | 34. 3 | 50. 0 | 39. 9 | 51. 2 |
| Corn | do | 49. 4 | 54. 9 | 19. 3 | 25. 4 | 39. 1 | 46. 3 |
| Oats | do | 28. 1 | 45. 0 | 11. 9 | 17. 4 | 42. 5 | 38. 7 |
| Rye | do | 18. 3 | 13. 6 | 8. 2 | 5. 4 | 44. 8 | 39. 5 |
| Soybeans | do | 53. 5 | 39. 7 | 17. 2 | 5. 7 | 32. 1 | 14. 3 |
| Flaxseed | do | (2) | . 4 | 0 | (2) | 0 | 5. 2 |
| Grain sorghums | do | 0 | 2. 3 | 0 | 1. 5 | 0 | 65. 6 |
| Rice | Million pounds | . 7 | . 5 | 0 | 0 | 0 | 0 |
| Cotton | Million bales | 2. 4 | 3. 3 | . 6 | 1. 3 | 26. 1 | 38. 2 |
| Wool tops | Million pounds | 4. 8 | 6. 0 | 2. 5 | 2. 6 | 51. 6 | 43. 9 |
| Butter | Thousand carlots | . 2 | . 2 | . 1 | . 1 | 64. 6 | 45. 8 |
| Eggs | do | 2. 3 | 2. 9 | . 9 | . 9 | 39. 3 | 31. 1 |
| Potatoes | do | . 6 | . 4 | . 3 | (3) | 51. 6 | 10. 0 |
| Cottonseed oil | Million pounds | 185. 1 | 265. 8 | 128. 4 | 114. 1 | 69. 4 | 43. 0 |
| Soybean oil | do | 16. 2 | 162. 9 | 11. 6 | 113. 0 | 71. 4 | 69. 3 |
| Lard | do | 62. 4 | 60. 6 | 40. 1 | 26. 3 | 64. 2 | 43. 4 |
| Bran | Tons | 19. 1 | 24. 9 | 13. 6 | 20. 1 | 71. 5 | 80. 9 |
| Shorts | do | 8. 9 | 11. 7 | 5. 7 | 9. 4 | 64. 0 | 80. 3 |
| Cottonseed meal | do | 31. 6 | 52. 3 | 10. 1 | 2. 6 | 31. 8 | 5. 0 |
| Soybean meal | do | 77. 0 | 174. 8 | 34. 3 | 141. 5 | 44. 6 | 81. 0 |

[1] Percentages computed from unrounded data.
[2] Less than 50,000 bushels.
[3] Less than 50 carlots.

chants and processors was an important factor, while in others the increases were due in greater degree to speculative transactions.

In wheat, corn, and cotton, the open-contract levels in 1951 showed increases over 1950 of 13.5 percent, 11.1 percent, and 37.5 percent, respectively. Table 5 shows that in each of these commodities short hedging commitments of reporting traders were greater in 1951 than in 1950, and also that such commitments were a greater proportion of total open contracts. In wheat, in 1951, the reported short-hedging commitments averaged 51.2 percent of total open contracts, in corn 46.3 percent, and in cotton 38.2 percent. The corresponding figures for reported long-hedging commitments (not shown in table 5) were: Wheat 20.9 percent, corn 11.5 percent, and cotton 28.2 percent.

Increased hedging in wheat and corn in the 1951 fiscal year stemmed from the fact that commercial stocks of both grains were larger throughout most of the year than in the preceding year. This was true notwithstanding the fact that the wheat and corn crops which came to market in the 1951 fiscal year were not as large as in the preceding year. Although the cotton crop marketed in the 1951 fiscal

year was a small one, with prices considerably above the loan level, merchants and processors made extensive use of short hedging positions in futures for protection against the possibility of price declines on supplies in the process of being merchandised or processed. There was also an active speculative interest in cotton futures during the year, and this, plus the hedging commitments, resulted in the highest level of cotton-futures open contracts in many years.

In several commodities with relatively large trading volume in the 1951 fiscal year, the data on open contracts and commitments of reporting traders did not indicate increased hedging. These included soybeans, rye, and eggs.

In soybeans and rye the average open contracts were considerably below the level of the preceding year, and the reported short-hedging commitments were much below the previous year's level. In eggs and wool tops the average open contracts were considerably above the preceding year, but the average of reported short-hedging commitments was little changed. In all four commodities the reported short-hedging commitments were a smaller proportion of total open contracts than was the case in the preceding year. The long commitments reported as hedges were relatively small proportions of total open contracts.

There were large supplies of eggs in the accumulative period in the spring and early summer of 1950; on June 30, 1950, hedging commitments in the Chicago futures market were at a relatively high level. With the seasonal decline during the deficit period, however, egg-futures open contracts and reported hedging commitments dropped sharply, and were at relatively low levels in the late fall and winter months. In the spring of 1951 trading in egg futures became very active as prices advanced. This was accounted for primarily by speculative activity. The into-storage movement of eggs in the accumulative period of 1951 was smaller than average, and reported hedging commitments against storage supplies were a much smaller factor in the market than one year earlier.

In soybeans for several years the proportion of open contracts represented by short hedging commitments has been smaller than in other leading commodities. In the 1951 fiscal year, such commitments in soybeans averaged only 14.3 percent of total open contracts. Although the 1950 soybean crop was larger than in the preceding year and commercial stocks in 1950-51 approximately the same as in the year before, the average amount of open contracts was considerably smaller and reported short hedging commitments were markedly lower than in the previous year.

By contrast, open contracts and reported short-hedging commitments in soybean meal and soybean oil showed marked increases in the 1951 fiscal year as compared with the previous year, and reflected large-scale utilization of the markets for hedging. Reporting crushers and processors made large hedging sales during the fall and winter months when crushing activity increased seasonally. In soybean meal the proportion of reported short-hedging commitments to total open contracts averaged 81.0 percent for the 1951 fiscal year, and in soybean oil 69.3 percent. These percentages for the two products from soybeans were in striking contrast to the small proportion of reported short-hedging commitments in soybeans.

In cottonseed oil, as in soybean oil, there were large hedging sales in the autumn and early winter of 1950, when crude stocks at mills were at the highest levels of the year. With the small 1950 cotton crop, however, cottonseed crushing activity and crude stocks declined sharply in the late winter and spring of 1951, and this decline was accompanied by a sharp reduction in reported short-hedging commitments. This accounted for the lower average amount of such commitments for the 1951 fiscal year as compared with the previous year, when cottonseed oil production and stocks were much larger.

## FORMAL COMPLIANCE ACTIONS

Because of the number and diversity of commodities, markets, and trading practices involved, the enforcement of the Commodity Exchange Act necessarily includes a wide range of investigative procedures and compliance actions. Compliance activities by the CEA range from a local telephone call to correct a minor error in a trader's report to an extended investigation and presentation of evidence to support a formal complaint charging violations of the criminal provisions of the act, such as cheating and defrauding commodity customers, manipulating prices, or cornering the market.

When, on the basis of investigation, there is reason to believe that a trader, broker, or other person or firm, has violated provisions of the act, a formal disciplinary proceeding may be instituted. The Secretary of Agriculture may issue a complaint looking to an administrative hearing and proceeding before officers of the Department authorized to act upon such complaints. Or, if violation of the criminal provisions of the act is indicated, the evidence may be turned over to the Department of Justice for criminal prosecution in a United States district court. In certain circumstances, both an administrative proceeding and a criminal prosecution may be instituted.

In an administrative proceeding, hearings are held before a referee who submits a report to the judicial officer of the Department. The judicial officer, after consideration of the evidence of the complainant, the respondents' defense, and the referee's recommendations, enters an order. If the judicial officer believes that sanctions are justified, he may issue an order directing contract markets to deny trading privileges to the respondent for a specified period. If the respondent is a registered futures commission merchant or floor broker, the judicial officer may suspend or revoke such registration. Orders of the judicial officer are subject to appeal by the respondent to a United States Court of Appeals.

In a criminal proceeding, the Department of Justice, through the United States District Attorney, may file a criminal information against the defendant, or submit the evidence for presentment to a grand jury. In criminal prosecutions, defendants who are found guilty may, for each violation, be fined up to $10,000 or imprisoned for one year, or both.

During the 1951 fiscal year six formal complaints charging violations of the act were dealt with, as summarized in subsequent paragraphs. All of these cases involved administrative proceedings, and one case involved criminal prosecution.

CE–A Docket No. 47. *In re Ralph W. Moore.*—The respondent was charged, in a complaint of May 27, 1948, with attempting to manipulate lard prices by knowingly issuing false and misleading information for transmission in interstate commerce. Moore was also charged with failure to submit required reports to the Commodity Exchange Authority on speculative transactions and positions in grain, cotton, and lard futures. Hearings were completed on April 26, 1949, and the report of the referee in the case was filed March 10, 1950. The decision and order of the judicial officer, rendered November 15, 1950, found that Moore attempted to manipulate lard prices and failed to submit required reports, as charged, and directed contract markets to deny trading privileges to the respondent for a period of 90 days, beginning January 1, 1951. Following an appeal by the respondent to the United States Court of Appeals for the District of Columbia, the judicial officer, as of November 28, 1950, stayed his order pending the outcome of the appeal. On July 5, the Court of Appeals affirmed the order of the judicial officer, and the respondent appealed to the United States Supreme Court.

CE–A Docket No. 48. *In re Great Western Distributors, Inc., Nathaniel E. Hess, Charles S. Borden, Thomas F. Haynes, and Hartley L. Harris.*—A complaint of July 12, 1948, charged that the respondent corporation obtained a dominant and controlling position in the December 1947 egg-futures market in Chicago, cornered the commodity in Chicago and in interstate commerce, and attempted to manipulate the price, in violation of sections 6 (b) and 9 of the act. It was charged that the respondent corporation acquired and maintained a controlling long position in 1947 December egg-futures contracts, knowing there were insufficient eggs in store in Chicago which could be delivered in satisfaction of such contracts, and that a substantial proportion of the available supply in Chicago was in its own possession. The corporation thus placed itself in a position, the complaint charged, in which it could and did demand such prices as it pleased from those who had sold 1947 December egg-futures contracts and who were thus obligated either to deliver eggs in fulfillment of such contracts or, in the alternative, to cover such sales by purchases in the futures market.

Hearings on the complaint were held in Chicago on July 26–29, October 18–21, and December 6–9, 1949. On May 22, 1950, the proposed findings of fact of the Government and of the respondents, respectively, were filed with the referee, whose report, entered August 29, 1950, adopted in most respects the Government's recommended findings of fact, conclusions, etc. The respondents filed exceptions to the referee's report and petitioned the judicial officer for oral argument which was heard December 19, 1950. In a decision and order of June 20, 1951, the judicial officer found that the respondent corporation and Hess and Borden had cornered the egg market and attempted to manipulate the price, and directed all contract markets to refuse them trading privileges for a period of one year, beginning July 20, 1951. The proceedings against respondents Haynes and Harris were dismissed. On July 13, 1951, upon notice that the judicial officer's decision and order had been appealed to the United States Court of Appeals for the Seventh Circuit, the order was stayed pending the outcome of the appeal.

CE–A Docket No. 49. *In re Charles B. Grady.*—A complaint of August 31, 1948, charged Grady with violations of the act including the cheating and defrauding of customers. At a hearing on May 26, 1949, the respondent did not defend; and the report of the referee, issued August 11, 1949, recommended that the respondent be found in violation as charged. A decision and order of the judicial officer of the Department, entered November 21, 1949, revoked the respondent's registration as a futures commission merchant.

On the basis of investigations by the Commodity Exchange Authority in this case, a criminal information was also filed against Grady by the Department of Justice on October 8, 1948. The information charged the respondent with swindling five customers of a total of more than $31,000 under the pretense of dealing in commodity futures for them, failure to segregate and properly account for the funds of customers, and converting customers' funds to his own use.

In a trial before the United States District Court for the Northern District of Illinois, concluded December 8, 1949, the jury was unable to agree. In a new trial before the court in January 1950 the defendant was convicted by a jury on all counts in the criminal information, and on February 1, 1950, was sentenced to 1 year in prison and fined $5,000. On February 20, 1950, the defendant appealed to the United States Court of Appeals for the Seventh Circuit. On November 15, 1950, the court remanded the case to the district court for retrial, and the case was pending at the close of the fiscal year.

CE-A Docket No. 52. *In re Claud Wilkes.*—On December 19, 1949, a complaint and notice of hearing charged the respondent with wilful failure to make reports on holdings in cotton futures as required under section 4i of the act.

Following a hearing in New Orleans on March 8, 1950, and referee's report filed June 7, 1950, the judicial officer of the Department on October 11, 1950, entered an order directing all contract markets to refuse trading privileges to the respondents for a period of 60 days. This order was stayed by the judicial officer on October 31, 1950, pending reconsideration pursuant to petition filed by the respondent. On February 12, 1951, the judicial officer entered an order vacating the stay order and directing all contract markets to deny trading privileges to the respondent for a 60-day period. On March 2, 1951, this order was stayed pending the outcome of an appeal filed by the respondent in the United States Court of Appeals for the Fifth Circuit. On June 1, 1951, the court, on motion of the respondent, entered an order dismissing the appeal. On June 4, 1951, the judicial officer vacated his stay order and reinstated his order of February 12, 1951, all contract markets being directed to refuse trading privileges to the respondent for a 60-day period beginning June 25, 1951.

CE-A Docket No. 53. *In re Cotton Products Co., Inc., J. P. Barnett, Sr., A. F. Spencer, J. P. Doherty, L. T. Poulet, and J. P. Barnett, Jr.*—On January 20, 1950, a complaint and notice of hearing charged the respondents with wilfully failing to make reports to the Commodity Exchange Authority of positions in cottonseed oil futures as required under section 4i of the act. A scheduled hearing was canceled following receipt of letters from the respondents which constituted admission of the allegations in the complaint and a waiver of hearing. The referee's report was filed June 7, 1950; and a decision and order of the

judicial officer of October 11, 1950, effective 30 days thereafter, directed that the trading privileges of A. F. Spencer be denied for a period of 60 days, that Cotton Products Co., Inc., be denied trading privileges for 60 days, to be held in abeyance for a period of 1 year; and that the complaint be dismissed against respondents J. P. Barnett, Sr., J. P. Doherty, L. T. Poulet, and J. P. Barnett, Jr.

CE-A Docket No. 54. *In re George Sirota and Sons, George Sirota, Norman L. Sirota, Benjamin Sirota, Harry A. Aspinwall, and Dyke Cullum.*—A complaint and notice of hearing entered Novenber 6, 1950, charged that George Sirota and Sons, a New York commodity brokerage partnership, Aspinwall, an employee, and Cullum, a trader, agreed and planned to operate futures trading accounts in a manner calculated to conceal the true names of the owners of the accounts, for the purpose of evading reporting requirements under the act, and that the respondents did evade such requirements with respect to open contracts in soybean oil and cottonseed oil on the New York Produce Exchange. The complaint also charged that the Sirota respondents diverted margin money of Cullum to margin transactions of a person other than Cullum, and failed to record in writing the true names of the parties to the transactions involved.

Hearings were held in New York City on January 30, 1951, in Washington, D. C., on February 7, 8, and 9, 1951, and again in New York on March 6, 7, 8, 13, 14, 15, and 16. The time for filing suggested findings of fact, conclusions and order, was fixed for June 4, 1951, and extended to July 20, 1951.

U. S. GOVERNMENT PRINTING OFFICE: 1951

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# REPORT OF THE ADMINISTRATOR OF THE COMMODITY EXCHANGE AUTHORITY 1952



UNITED STATES DEPARTMENT OF AGRICULTURE

# Report of the Administrator of the Commodity Exchange Authority, 1952

United States Department of Agriculture,
Commodity Exchange Authority,
*Washington, D. C., October 10, 1952.*

Hon. Charles F. Brannan,
*Secretary of Agriculture.*

Dear Mr. Secretary: I submit herewith a report of the work of the Commodity Exchange Authority for the fiscal year ended June 30, 1952.

Sincerely yours,

J. M. Mehl,
*Administrator.*

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## FUTURES MARKET REGULATION IN 1951–52

In a year of continued high-level activity in the commodity futures markets, the work of the Commodity Exchange Authority served to prevent excessive speculation and manipulative practices in futures trading, and contributed to market stability.

Effective regulation of futures trading, through enforcement of the Commodity Exchange Act, is of benefit to farmers who use futures prices as a guide in marketing their crops, and to merchandisers and processors who "hedge" in the futures markets to lessen price risks in commodity merchandising and processing.

The regulatory work of the CEA during the year, such as the enforcement of "speculative limits" in grains and cotton, the introduction of such limits in soybeans and eggs, and the prompt analysis of irregular market situations, acted to curb disorderly trading and to moderate price fluctuations.

In the suppression of unlawful trading practices, evidence from CEA investigations was effectively presented to support formal complaints by the Secretary of Agriculture, and criminal charges by the Department of Justice, against persons and firms charged with violations of the Commodity Exchange Act.

Compared with those the previous year, economic conditions were somewhat more favorable to the orderly conduct of futures trading. The precipitate speculative buying and selling of commodity futures, and the wide price swings which in the previous year marked the initial period of the Korean conflict, were less in evidence during the recent year.

With some exceptions, prices reflected from the futures markets—to farmers and the public generally—were less disturbed by sharp price fluctuations. Farmers probably used futures prices more extensively in the pricing and marketing of cash commodities than in any year since World War II.

The volume of trading in most commodities was more than adequate to accommodate the hedging needs of farmers' cooperatives, merchants, and processors who used the futures markets nonspeculatively to assist them in reducing price risks in marketing, or in processing and distribution.

More traders were in the futures markets than in the preceding year. A total of 28,884 commodity accounts were on the books of brokerage firms audited by CEA accountants during the year, representing a 12 percent increase over the comparable figure for 1 year earlier.

In July 1951, at the beginning of the fiscal year, commodity prices were receding from the peak levels reached in the preceding winter and spring when price ceilings had been placed on cotton, soybeans, and a number of other commodities, by the Office of Price Stabilization. In the late summer and fall of 1951, futures prices of grains and cotton advanced, and then receded in the winter and spring of 1952. In the fats and oils commodities, futures prices generally sought lower levels during the year, but with a number of intermediate movements.

For most commodities the changes in price-making factors, and in market sentiment, were on a somewhat smaller scale, and prices moved over a more limited area, than in the previous year. The buying and selling forces which entered the markets were for the most part gradually exerted. However, the various intermediate changes in prices during the year were accompanied by active trading, as speculators and hedgers sought to adjust to changing conditions.

In most of the 20 regulated commodities in which futures trading was conducted during the year, small traders and large speculators were net long on an average for the year as a whole, and large hedgers were net short.

There were numerous shifts, however, in the positions of trading groups which annual averages do not reflect. In wheat, for example,

small traders and large speculators were net long throughout most of the year, but at certain intervals both groups were net short. In cotton, small traders were short on balance for the year and large speculators net long, but neither group was net short or long continuously throughout the year. In soybeans, small traders were net long for the year as a whole, but the preponderant weight of their holdings shifted sides in the market seven times during the year.

For the most part, speculative buying in leading commodities was readily absorbed by speculative selling and by short hedging commitments of merchants and processors.

Viewing the markets as a whole, the trading volume was somewhat above the level of the previous year. Of the 20 commodities traded in, there were increases in 10, including most of the leading commodities, and these increases more than offset decreases in the other commodities.

Trading in all grains on all markets amounted to 12,795,000,000 bushels, an increase of 5.7 percent over the previous year, and 43.7 percent above the average for the 10-year period, 1942–51. Substantially increased trading volumes in corn, oats, and grain sorghums during the year, and a continued high level of soybean trading, more than offset decreases in wheat and rye.

Cotton futures trading on all markets amounted to 94,887,000 bales, an increase of 20 percent over the 1950–51 fiscal year, and 43.6 percent above the average for the 10-year period, 1942–51.

TABLE 1.—*Estimated value of futures trading, by commodities, fiscal years 1950, 1951, and 1952*

| Commodity | 1950 | 1951 | 1952 |
|---|---|---|---|
| | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* |
| Wheat | 9, 038, 425 | 11, 104, 823 | 10, 480, 840 |
| Corn | 2, 736, 211 | 3, 786, 543 | 4, 899, 170 |
| Oats | 800, 855 | 1, 478, 169 | 2, 046, 633 |
| Rye | 825, 343 | 954, 790 | 809, 662 |
| Flaxseed | 209 | 22, 742 | 165, 750 |
| Soybeans | 9, 251, 599 | 8, 899, 167 | 8, 741, 413 |
| Grain sorghums | ---------- | 54, 945 | 236, 572 |
| Rice, milled | 255 | 373 | 33 |
| Cotton | 8, 276, 064 | 16, 726, 624 | 18, 730, 694 |
| Wool tops | 85, 763 | 251, 403 | 352, 527 |
| Butter | 29, 717 | 42, 437 | 120, 480 |
| Eggs | 313, 696 | 903, 223 | 547, 726 |
| Potatoes | 8, 306 | 2, 785 | 30, 635 |
| Lard | 171, 918 | 359, 847 | 193, 286 |
| Cottonseed oil | 648, 459 | 1, 679, 692 | 1, 238, 407 |
| Soybean oil | 26, 344 | 625, 274 | 341, 083 |
| Bran | 14, 819 | 19, 445 | 16, 595 |
| Shorts | 6, 784 | 9, 508 | 10, 145 |
| Cottonseed meal | 29, 999 | 45, 594 | 46, 763 |
| Soybean meal | 86, 679 | 176, 255 | 170, 720 |
| Total | 32, 351, 445 | 47, 143, 639 | 49, 179, 134 |

Other commodities with larger trading volumes in the recent year included flaxseed, wool tops, butter, potatoes, and cottonseed oil.

Futures trading in eggs, lard, soybean oil, bran, and soybean meal reflected decreases.

Trading activity for all commodities and markets combined, measured by the number of transactions (purchases and sales in terms of contract units), increased 5 percent over the previous year. Total transactions were estimated at 8,679,000 in the year ended June 30, 1952, compared with 8,257,000 in the previous year, and an average of 6,096,000 for the 10-year period, 1942–51.

The total dollar value of futures trading in all regulated commodities was $49,179,134,000 in the year ended June 30, 1952, representing an increase of 4.3 percent compared with the previous year (table 1). The estimated value of trading in 1950–51 was $47,143,639,000, and the average for the 10 years, 1942–51, was $26,492,506,000.

## RÉSUMÉ OF REGULATORY ACTIVITIES

A group of large speculators in Chicago egg futures were indicted by a Federal grand jury, and criminal informations filed against them on charges of violating the Commodity Exchange Act and the Sherman Antitrust Act.

Another large speculator, charged under the Commodity Exchange Act with disseminating false information in an attempt to manipulate Chicago lard futures prices, appealed to the United States Supreme Court to set aside an order suspending him from the markets. His appeal was denied.

A number of other compliance cases under the act dealt with violations such as cheating and defrauding commodity customers, mishandling customers' funds, exceeding speculative limits, failure to comply with reporting requirements, and improper floor trading practices.

The effectiveness of "speculative limits," which have been enforced in grain and cotton futures for more than 10 years, was broadened during the year by the fixing of limits for the first time in soybeans and eggs. The limits for these two commodities were put into effect on October 1, 1951.

The market analysis work necessary to determine proper levels for the establishment of speculative limits in lard, cottonseed oil, and soybean oil was completed during the year. Recommendations for such limits were made in public hearings held July 28 and 29, 1952.

In some commodities, including oats, rye, and potatoes, unusual or irregular market situations developed which required special analyses, in some cases leading to full investigations.

In the annual registration of commodity brokers and brokerage firms, the Authority approved the applications, collected the required fees, and registered as futures commission merchants, 623 persons and firms. It also registered 827 applicants as floor brokers on the exchanges. The registrations reflected a further increase during the year in the number of floor brokers and in the number of branch offices maintained by futures commission merchants.

In the continuing work of auditing brokerage firms to insure "trust-fund" treatment of traders' funds, and prevent misuse of such funds in brokers' hands, CEA accountants made 594 audits during the year, covering the greater portion of firms registered under the act.

The firms audited ranged in size from very small concerns to those having a thousand or more customers each and millions of dollars of customers' funds on hand.

During the year the system of required daily reports on trading operations—made by large speculators and hedgers, and by commodity brokerage firms—continued to provide a broad basis of information for market regulatory work. More than a half-million such reports were obtained and analyzed during the year. Progress was made in improving the flow of this information for regulatory purposes, by simplifying reporting forms and obtaining traders' cooperation to avoid errors and delays in reporting.

More traders have been operating at "large trader" levels during the past 2 years. This has increased the size of the surveillance job, but there has been no relaxation of vigilance in checking and analyzing the individual reports. The reports on the futures transactions of traders operating near the speculative limits in grains, cotton, soybeans, and eggs, have been given particularly close attention to secure full compliance with the limits.

In these commodities the Authority also kept a systematic check on the operations of merchandisers and processors with large futures positions reported as hedges; i. e., nonspeculative positions made to offset price risks in the actual commodity. If such futures positions are bona fide hedges they are not subject to speculative limits. To determine compliance, however, large merchandisers and processors are required to make regular weekly reports on cash-commodity positions as well as on futures positions. This enables the CEA to determine whether their futures positions classified as hedges are actually offset by cash positions, and thus qualify as bona fide hedges as defined in the act. Large futures holdings which do not so qualify are subject to speculative limits, and if in excess of these limits are unlawful.

## UNLAWFUL PRACTICES IN EGG FUTURES

Events during the year justified in results the very considerable amount of regulatory work done by the Authority over the past few years to suppress manipulative and cornering activities in egg futures trading, and to determine a basis for speculative limits in this important commodity. (See pp. 7–8.)

Futures transactions on the Chicago Mercantile Exchange have price-making functions of Nation-wide effect. Futures prices registered on the exchange are used daily as a basis in determining spot prices to producers and consumers, and in the trade generally.

Of particular importance is the trading in the fall and early winter, involving the September, October, November, and December futures. In these months, when supplies of fresh eggs are seasonally reduced, the availability of storage eggs deliverable on Chicago futures contracts assumes increasing importance. Because the supply of such eggs is relatively small, the market is particularly vulnerable to manipulative activity. Large speculators have taken advantage of this situation in attempts to corner the market and manipulate prices to their own advantage.

In 1948, on the basis of CEA investigations, Great Western Food Distributors, Inc., of New York City, and certain of its officers, were

charged with cornering and attempted manipulation of the 1947 December egg-futures market. After extensive public hearings and proceedings, the judicial officer of the Department issued a decision and order on June 20, 1951, directing all contract markets to refuse trading privileges for 1 year to Great Western, and to Nathanial E. Hess, vice president of the corporation, and Charles S. Borden, manager of its Chicago office. The order was stayed, however, when the respondents appealed to the United States Court of Appeals for the Seventh Circuit, in which the case was pending at the end of the 1952 fiscal year.

In the 1949 egg-futures market, Great Western and a number of its customers obtained a dominant and controlling position in the October future, and forced up the price at a time when supplies of storage eggs available for delivery on Chicago futures contracts were at a low level. The exchange suspended trading in the October future prior to maturity. The CEA's report on this market, published May 20, 1950, pointed out that concerted speculative operations in the market had distorted prices, disrupted orderly egg marketing, and caused financial losses to legitimate dealers.

Information from this investigation, with additional evidence, was turned over to the Department of Justice and presented to a Federal grand jury in New York City. On April 22, 1952, the grand jury indicted Great Western Food Distributors, Inc., Industrial Raw Materials Corporation, Nathaniel E. Hess, and Edward B. Gotthelf and Jack Rauch, as an alleged combination and conspiracy to violate the Sherman Antitrust Act, based on their trading in October 1949 egg futures, and recommended criminal prosecution in the United States district court in Chicago, Ill.

On April 25, 1952, one criminal information filed at Chicago charged that the above-named defendants and Charles S. Borden attempted to manipulate and attempted to corner October 1949 egg futures in violation of the Commodity Exchange Act. Another criminal information filed the same day charged Great Western and Nathaniel E. Hess with monopoly in violation of the Sherman Antitrust Act and with manipulation and cornering in violation of the Commodity Exchange Act, all relating to their transactions in November 1949 egg futures. Upon petition by the defendants for a change of venue, the New York indictment was subsequently transferred to the United States district court in Chicago where the indictment and the two criminal informations were joined, and set for trial.

## LIMITS ON SPECULATIVE TRANSACTIONS

An important part of the work during the year dealt with the establishment and enforcement of speculative limits on the futures transactions of large traders.

The authority to establish speculative limits, as provided by the Commodity Exchange Act amendments of 1936, is vested in the Commodity Exchange Commission, consisting of the Secretary of Agriculture, the Secretary of Commerce, and the Attorney General.

The Commission establishes speculative limits for a commodity only after public hearings. The CEA investigates and analyzes the effects of speculation in the commodity and presents evidence in hear-

ings. Representatives of the exchanges, and of agricultural and trade organizations, have an opportunity to testify.

Speculative limits for grains (wheat, corn, oats, rye, barley, and flaxseed) were initially established in 1938, and for cotton in 1940. The program for other commodities, which was interrupted by World War II and budgetary limitations until 1950, has been advanced substantially in the past two years by the establishment of limits for soybeans and eggs (effective October 1, 1951), and by the preparation of evidence and the holding of hearings for limits in lard, cottonseed oil, and soybean oil.

## ENFORCEMENT OF LIMITS IN GRAINS AND COTTON

The enforcement by the CEA of speculative limits such as the 2,000,000-bushel limit provided for wheat futures, and the 30,000-bale limit for cotton futures, has become a very important factor in protecting the grain and cotton markets from price disturbances.

With limits such as those now in effect, the so-called market "leader" cannot build a speculative "line" of more than about 2 or 3 percent of the open contracts in a commodity. Notwithstanding the increase in recent years in the number of large traders in the markets, it has become more difficult to build up price-dominating positions; and the field for manipulative and cornering operations has thereby been narrowed.

Speculative limits for most grains and for cotton have been in effect for more than 10 years. Strict and impartial enforcement has won respect for the limits, and a satisfactory record of compliance has been established.

In the year ended June 30, 1952, there were 13 instances of speculators exceeding the grain and cotton limits: 3 in wheat, 1 in corn, 4 in oats, 1 in rye, and 4 in cotton. In most of these instances the excess above the limit was relatively small, was due to carelessness or bookkeeping errors, and was reduced immediately when the trader involved was put on notice. Violations of a more serious nature were dealt with through formal disciplinary procedures.

## ENFORCEMENT OF LIMITS IN SOYBEANS AND EGGS

The need for speculative limits was well demonstrated in the case of soybeans. The Chicago futures market for this commodity has expanded rapidly in the past few years, with heavy trading by large speculators, and a number of unruly market situations. The speculative limit fixed by the Commodity Exchange Commission, which became effective on October 1, 1951, is 1,000,000 bushels, applicable to daily purchases and sales and net positions. Some speculators had been operating much above this level. In the initial period compliance with the new limit did not measure up to the record in grains and cotton.

Speculators exceeded the limit in 11 instances from October 1, 1951, to June 30, 1952. Most of the infractions were relatively small, and in each instance the trader involved brought himself into compliance immediately when warned to do so. By the end of the fiscal year it was well understood in the trade that the new speculative limit in soybeans was being strictly enforced.

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The enforcement of speculative limits did not, apparently, decrease the general interest in soybean futures trading, nor diminish the liquidity of the market. In fact, the volume of trading on the Chicago Board of Trade, amounting to 2,905,700,000 bushels in the recent fiscal year, was slightly above the preceding year, when the limit was not in force, and was second only to the record volume traded in the 1950 fiscal year.

The average amount of open contracts in soybeans accounted for by large (reporting) speculators in the recent fiscal year showed a moderate increase, as compared with the preceding fiscal year. There was a fairly substantial increase during the year in the average amount of hedging commitments of reporting traders.

It is also of interest that there were only 2 days in the period from October 1, 1951, through June 30, 1952, on which soybean futures prices fluctuated the permissible limit (10 cents up or down from the previous close), contrasted with 6 such days in the corresponding period 1 year earlier.

In egg-futures trading the Commission established daily trading and net position limits ranging for the various futures from 50 to 150 carlots. There was generally good compliance with the new limits, there being only two instances in the period from October 1, 1951, when the limits went into effect, to June 30, 1952, in which speculators exceeded the limits. There was no difficulty in obtaining compliance when the speculators involved were put on notice.

Although there was some decrease in the average holdings of large speculators during the year as compared with the previous year, the average commitments of large hedgers remained about the same.

Also of interest is the fact that the number of days with relatively wide price fluctuations in egg futures was considerably smaller in the period from October 1, 1951, through June 30, 1952, than in the corresponding period 1 year earlier. In the 1950–51 period there were 12 days with price ranges of 2 cents or more per dozen in one or more egg futures, but only two such days in the corresponding period of 1951–52.

## HEARINGS ON LARD, COTTONSEED OIL, AND SOYBEAN OIL

During the year the CEA made extensive investigation and analysis of the futures markets for lard, cottonseed oil, and soybean oil, looking toward the establishment of speculative limits for these commodities. These are the first processed commodities for which speculative limits have been proposed, and presented problems not encountered in connection with the establishment of limits for raw commodities.

Evidence resulting from this investigation and analysis was presented at public hearings before the Commodity Exchange Commission held in Washington, D. C., on July 28 and 29, 1952. Representatives of exchanges and the industries involved appeared at the hearings and provision was made for the filing of supplemental statements or briefs.

Analysis by the CEA of daily trading of reporting speculators in the three commodities showed the same relationship to price movement as had been found in previous analyses of large-scale speculative trading in other commodities. As the size of such trades increased

there was a definite tendency for prices to move in the same direction as the trading with greater and greater frequency. When reporting speculators' net trades on one day were small, prices moved in the same direction as the trade only about half the time. That is, about 50 percent of the purchases were accompanied by price increases and 50 percent by price decreases. But as trades of larger and larger sizes were considered, a greater proportion of purchases was accompanied by price increases and a greater proportion of sales by price decreases.

The amounts of open contracts representing hedging positions and the amounts of speculative positions needed as offsets were also analyzed, as well as the effect which limits of various sizes would have had on the number and amount of speculative positions.

The evidence presented at the hearings by CEA representatives indicated that futures trades and positions in lard, cottonseed oil, and soybean oil, amounting to more than approximately 2 percent of total open contracts, definitely affected prices. It was suggested that a level in the neighborhood of 2 percent of average open contracts in a recent period would be an appropriate basis for speculative limits and would not hamper the hedging facilities of the markets.

## SIZE OF BROKERAGE FIRMS

The commodity brokerage business in commodities subject to regulation under the Commodity Exchange Act is conducted by about 600 firms registered under the act, maintaining more than 1,800 principal and branch offices.

An analysis of data from audits of most of these firms by CEA accountants during the recent fiscal year shows that there is a wide diversity in size of business, both from the standpoint of number of customers served, and in the amount of funds in customers' accounts.

Firms audited during the year, numbering 563, covered the great majority of the brokerage firms registered under the act, and the data are broadly representative of the business of all registrants.

The data show that much the larger proportion of the brokerage business in regulated commodities is handled by a relatively small number of medium- and large-size firms, some of which have hundreds of customers and millions of dollars of customers' funds on hand. The numerous small firms have a relatively minor proportion of the total business. More than 75 percent of the total number of firms audited had fewer than 25 commodity customers each, and in most instances less than $100,000 of commodity customers' funds on hand.

In the tabulation below the brokerage firms audited during the year are classified in size groups according to the amount of customers' funds on hand, as follows:

| Size groups by amount of customers' funds: | *Number of brokerage firms* | *Amount of customers' funds* | *Percent of total amount* |
|---|---|---|---|
| Less than $100,000 | 433 | $5, 328, 522 | 3. 4 |
| $100,000 to $500,000 | 74 | 16, 052, 792 | 10. 1 |
| $500,001 to $1,000,000 | 24 | 17, 018, 677 | 10. 8 |
| $1,000,001 to $5,000,000 | 27 | 61, 130, 435 | 38. 7 |
| Over $5,000,000 | 5 | 58, 569, 448 | 37. 0 |
| Total | 563 | 158. 099. 874 | 100. 0 |

It will be seen that 32 firms in the largest size groups (firms holding more than $1,000,000 of customers' funds) accounted for $119,699,883 of such funds, or 75 percent of the total. In the medium-size groups ($100,000 to $1,000,000) 98 firms accounted for $33,071,469, or 20.9 percent of total funds held.

The numerous small firms with less than $100,000 each accounted for $5,328,522 of customers' funds, or 3.4 percent of the total. The amount of customers' funds shown for brokers in the smallest size group does not, however, adequately reflect the amount of business done by them since many are correspondent brokers who transmit all customers' funds to carrying brokers.

## JOB-LOT TRADING IN GRAIN FUTURES

Data compiled by the CEA on trading in "job lots" in grains indicate that there has been some decline in this type of trading over the past 10 years.

Trading in grain futures, historically, has been conducted primarily in the "round lot" contract, which in most grains is a unit of 5,000 bushels. A minor proportion of trading is conducted in job lots, which in wheat, corn, rye, and soybeans are units of 1,000 bushels, and in oats are units of 2,000 bushels.

Table 2 shows the amount of job-lot trading on the Chicago Board of Trade for a selected period a decade or more ago, and for the past two fiscal years.

As compared with the prewar period, the aggregate of job-lot trading in all grains combined has shown a marked decline, reflecting primarily a decrease in wheat. For each of the grains job-lot trading is a relatively less important factor percentagewise than in the prewar period. For all grains combined, job-lot trading in the period 1938–42 averaged 11.5 percent of total trading, whereas in the 1951 fiscal year the figure was 5.3 percent, and in 1952 it was 4.5 percent.

TABLE 2.—*Grain futures: Job-lot trading, and job lots as percent of total trading, Chicago Board of Trade, fiscal years, 1938–42, 1951, and 1952*

| Commodity | Average 1938–42 | | 1951 | | 1952 | |
|---|---|---|---|---|---|---|
| | 1,000 bushels | Percent | 1,000 bushels | Percent | 1,000 bushels | Percent |
| Wheat | 587, 029 | 11. 3 | 142, 018 | 4. 3 | 108, 197 | 3. 6 |
| Corn | 129, 671 | 9. 8 | 102, 812 | 4. 7 | 111, 779 | 4. 3 |
| Oats | 21, 323 | 6. 7 | 58, 082 | 3. 9 | 69, 402 | 3. 3 |
| Rye | 19, 896 | 6. 6 | 31, 065 | 5. 7 | 22, 460 | 5. 7 |
| Soybeans | [1] 143, 561 | 21. 8 | 214, 263 | 7. 5 | 180, 867 | 6. 2 |
| Total | 901, 480 | 11. 5 | 548, 240 | 5. 3 | 492, 705 | 4. 5 |

[1] 1941–42 only.

## SPECULATIVE MARGIN REQUIREMENTS

There was a tendency during the year for commodity exchanges to lower their margin requirements for speculative trading in futures.

For example, the initial minimum requirement for speculative trading in wheat on the Chicago Board of Trade was reduced from 25 to 20 cents a bushel during the year. As a percentage of price (near future), the speculative margin rate decreased from 10.8 percent as of June 30, 1951, to 8.9 percent as of June 30, 1952.

On the New York Cotton Exchange the minimum requirement for speculative trading was reduced, under the sliding-scale arrangement in effect on that exchange, from $40 per bale (near future) as of June 30, 1951, to $25 per bale as of June 30, 1952. As a percentage of price, the reduction was from 17.9 percent on the former date, to 12.5 percent on the latter.

In 15 of the 19 commodities listed in table 3 the speculative margin requirement on the leading market (or market listed) was a smaller percentage of price as of June 30, 1952, than on June 30, 1951. The commodities reflecting increases were grain sorghums (Kansas City), lard (Chicago), and cottonseed oil and soybean oil (New York).

The range in the percentage figures for the commodities and markets shown in table 3 was from a low of 5.6 percent in the case of butter on the Chicago Mercantile Exchange to a high of 18.2 percent for soybean oil on the New York Produce Exchange.

TABLE 3.—*Speculative margins: Minimum initial margin required by exchanges and margin as percent of closing price of near future, for specified commodities and markets, June 30, 1952*

| Commodity | Market | Unit | Contract | Margin per Unit | Margin per Contract | Price per Unit | Price per Contract | Margin as percent of price [1] |
|---|---|---|---|---|---|---|---|---|
| | | | | *Dollars* | *Dollars* | *Dollars* | *Dollars* | |
| Wheat | Chicago Board of Trade | Bushel | 5,000 bushels | 0. 20 | 1, 000. | 2. 25½ | 11, 275 | 8. 9 |
| Do | Kansas City Board of Trade | do | do | . 20 | 1, 000 | 2. 22 | 11, 100 | 9. 0 |
| Do | Minneapolis Grain Exchange | do | do | . 20 | 1, 000 | 2. 32⅜ | 11, 619 | 8. 6 |
| Corn | Chicago Board of Trade | do | do | . 12 | 600 | 1. 81 | 9, 050 | 6. 6 |
| Oats | do | do | do | . 07 | 350 | . 77⅜ | 3, 869 | 9. 0 |
| Rye | do | do | do | . 15 | 750 | 2. 12⅜ | 10, 619 | 7. 1 |
| Soybeans | do | do | do | . 25 | 1, 250 | 3. 26⅛ | 16, 306 | 7. 7 |
| Flaxseed | Minneapolis Grain Exchange | do | 1,000 bushels | . 50 | 500 | 3. 98½ | 3, 985 | 12. 5 |
| Grain sorghums | Kansas City Board of Trade | Hundredweight | 2,800 hundredweight | . 30 | 840 | 3. 03½ | 8, 498 | 9. 9 |
| Cotton | New York Cotton Exchange | Pound | 100 bales | . 05 | 2, 500 | [2]. 40 | 20, 000 | 12. 5 |
| Do | New Orleans Cotton Exchange | do | do | . 04 | 2, 000 | [2]. 399 | 19, 950 | 10. 0 |
| Wool tops | Wool Associates of the New York Cotton Exchange. | do | 5,000 pounds | . 20 | 1, 000 | 1. 97½ | 9, 875 | 10. 1 |
| Butter | Chicago Mercantile Exchange. | do | 20,000 pounds | . 04 | 800 | [2]. 716 | 14, 320 | 5. 6 |
| Eggs | do | Dozen | 14,400 dozen | . 035 | 500 | [2]. 454 | 6, 538 | 7. 7 |
| Potatoes | New York Mercantile Exchange | Hundredweight | 500 hundredweight | . 48 | 240 | 2. 89 | 1, 445 | 16. 6 |
| Cottonseed oil | New York Produce Exchange | Pound | 60,000 pounds | . 02 | 1, 200 | [2]. 147 | 8, 820 | 13. 6 |
| Soybean oil | do | do | do | . 02 | 1, 200 | [2]. 110 | 6, 600 | 18. 2 |
| Lard | Chicago Board of Trade | do | 40,000 pounds | . 02 | 800 | [2]. 116 | 4, 640 | 17. 2 |
| Bran | Kansas City Board of Trade | Ton | 120 tons | 6. 00 | 720 | 51. 40 | 6, 168 | 11. 7 |
| Shorts | do | do | do | 6. 00 | 720 | 55. 50 | 6, 660 | 10. 8 |
| Cottonseed meal | Memphis Merchants Exchange Clearing Association. | do | 100 tons | 5. 00 | 500 | 78. 00 | 7, 800 | 6. 4 |
| Soybean meal | do | do | do | 5. 00 | 500 | 81. 00 | 8, 100 | 6. 2 |

[1] Figures rounded to nearest tenth of 1 percent.

[2] Figures rounded to nearest thousandth of a dollar.

## CONTRACT MARKETS UNDER SUPERVISION

The CEA supervises futures trading on commodity exchanges designated under the Commodity Exchange Act[1] as contract markets. The following list shows the 18 commodity exchanges which are designated as contract markets, and the 20 commodities in which futures trading was conducted under CEA supervision during the year.

| *Market* | *Commodity* |
|---|---|
| Chicago Board of Trade | Wheat, corn, oats, rye, grain sorghums, soybeans, soybean meal, soybean oil, lard, cotton. |
| Chicago Mercantile Exchange | Butter, eggs, potatoes. |
| Chicago Open Board of Trade | Wheat, corn, oats, rye, soybeans. |
| Duluth Board of Trade | (No trading in 1951–52). |
| Kansas City Board of Trade | Wheat, corn, grain sorghums, bran, shorts. |
| Los Angeles Grain Exchange | (No trading in 1951–52). |
| Memphis Merchants Exchange Clearing Association. | Cottonseed meal, soybean meal. |
| Milwaukee Grain Exchange | Wheat, corn, oats, rye. |
| Minneapolis Grain Exchange | Wheat, oats, rye, flaxseed. |
| New Orleans Cotton Exchange | Cotton, cottonseed oil. |
| New York Cotton Exchange | Cotton. |
| New York Mercantile Exchange | Eggs, butter, potatoes, rice. |
| New York Produce Exchange | Cottonseed oil, soybean oil. |
| Portland Grain Exchange | (No trading in 1951–52). |
| St. Louis Merchants' Exchange | (No trading in 1951–52). |
| San Francisco Grain Exchange | (No trading in 1951–52). |
| Seattle Grain Exchange | Wheat. |
| Wool Associates of the New York Cotton Exchange. | Wool tops. |

During the 1952 fiscal year the extent of the regulatory work was increased by the inauguration of futures trading in two additional commodities on the Chicago Board of Trade—grain sorghums and soybean meal. With these additions the exchange was conducting trading in 10 commodities—a larger number that at any time in its history. Futures trading on the other contract markets continued in the same commodities as in the previous year, except on the Minneapolis Grain Exchange where there was nominal trading in soybeans in 1950–51, but none in 1951–52.

Although the total number of regulated commodities (20) with active futures trading has not changed much in the past few years, several of the designated exchanges have resumed or inaugurated futures trading in additional commodities, with the result that the total number of futures-trading markets on the designated exchanges has gradually increased—from 36 in 1948 to 40 in 1949 and 1950, to 43 in 1951, and 44 in 1952.

## REGISTRATION OF COMMODITY BROKERS

For the regulation of brokerage activities, the Commodity Exchange Act requires annual Federal registration of all persons and firms engaged in soliciting or accepting orders for the purchase or sale of

[1] The Commodity Exchange Act applies to the following commodities: Wheat, corn, oats, rye, barley, flaxseed, grain sorghums, millfeeds, cotton, rice, butter, eggs, Irish potatoes, wool tops, fats and oils, cottonseed, cottonseed meal, peanuts, soybeans, and soybean meal.

regulated commodity futures. Those so engaged are registered as "futures commission merchants." Floor brokers on the exchanges engaged in executing orders for customers are also required to register.

Futures commission merchants registered by the CEA during the year ended June 30, 1952, numbered 623, compared with 629 in the previous year. Floor broker registrations were 827 in the recent year compared with 780 in the preceding year.

While the number of registered futures commission firms showed little change, the number of offices maintained by them throughout the country continued to increase.

As reflected in table 4 the number of such offices on June 30, 1952 was 1,845, consisting of 585 principal offices and 1,260 branch offices. After declining during the World War II period, when trading in some commodities was suspended or at low levels, the number of commodity brokerage offices has increased rather steadily, showing an increase of nearly 20 percent in number since 1946. This increase, it should be noted, has been reflected primarily in number of branch offices rather than principal offices. Apparently there is a greater tendency for existing firms to expand their branch facilities than for new firms to enter the field.

The offices and agents of registered futures commission merchants as of the close of the fiscal year were located in 47 States, the District of Columbia, Hawaii, Puerto Rico, and 15 foreign countries.

TABLE 4.—*Registered futures commission merchants: Number of principal and branch offices, end of fiscal year, 1943–52*

| Year ended June 30— | Principal offices | Branch offices | Total |
|---|---|---|---|
| | *Number* | *Number* | *Number* |
| 1943 | 537 | 895 | 1, 432 |
| 1944 | 509 | 924 | 1, 433 |
| 1945 | 513 | 946 | 1, 459 |
| 1946 | 542 | 1, 006 | 1, 548 |
| 1947 | 562 | 1, 094 | 1, 656 |
| 1948 | 591 | 1, 116 | 1, 707 |
| 1949 | 592 | 1, 149 | 1, 741 |
| 1950 | 584 | 1, 168 | 1, 752 |
| 1951 | 578 | 1, 202 | 1, 780 |
| 1952 | 585 | 1, 260 | 1, 845 |

## AUDITS OF BROKERAGE HOUSES

To safeguard the trading public against improper brokerage practices in the handling of customers' funds, the accounting force of the Commodity Exchange Authority periodically audits the books and records of registered futures commission merchants. Under the Commodity Exchange Act futures commission merchants must segregate and separately account for the funds of their customers; they may not mix customers' funds with brokerage-house funds, nor use the funds of one customer to finance the trading of another customer or of the brokerage house.

The number of audits made during the year was 594, compared with 641 in the preceding year.[2] The number of audits was smaller in the recent year primarily because a part of the accounting personnel normally available for such audits was engaged in special investigatory work involving trading operations.

As in previous years the audits showed a generally good record of compliance with the segregation requirements on the part of most registrants. The number of deviations on the part of those not fully complying was about the same as in the previous year. These involved instances of undersegregation of customers' funds, commingling of customers' funds with house funds, unauthorized transfers from customers' accounts, failure to obtain required waiver agreements from customers, and other infractions. In most such instances corrective action and compliance were obtained by the examining accountant at the time of the audit, while the more serious cases were referred to the compliance staff for appropriate enforcement measures.

The audits showed that the number of traders' accounts and the amount of traders' funds in brokers' hands were larger in the year ended June 30, 1952, than in any of the preceding 5 years for which comparable records have been kept. The number of commodity accounts examined in the audits made during the recent year was 28,884, and the amount of customers' funds in the accounts $159,749,000. The comparable figures for the preceding year were 25,787 accounts and $145,603,000 of customers' funds.

On an average the brokerage firms audited had a larger number of commodity customers in the 1951–52 fiscal year than in any of the preceding 5 years; and the average amount of customers' funds, while slightly below the previous year's level, was second largest for the period covered by the data, as follows:

| Year ended June 30— | *Average number of accounts per audit* | *Average amount of money per customer* |
|---|---|---|
| 1947 | 24. 9 | $4, 550. 85 |
| 1948 | 42. 1 | 5, 321. 41 |
| 1949 | 37. 4 | 4, 376. 11 |
| 1950 | 37. 1 | 3, 638. 96 |
| 1951 | 40. 2 | 5, 646. 36 |
| 1952 | 48. 6 | 5, 530. 72 |

The wide range in the size of the audits during the year will be seen from the section of this report on the size-distribution of commodity brokerage firms. (See pp. 9–10.)

## REPORTING LEVELS FOR LARGE TRADERS

Major provisions of the Commodity Exchange Act, such as those prohibiting price manipulation and fraudulent dealings in commodity futures, apply to all traders in regulated commodities, irrespective of the size of their transactions. There is a special requirement, however, applicable to large traders; namely, that any trader who holds or controls futures contracts of a designated amount in a commodity on one market must report daily to the CEA all his trades and posi-

[2] The number of audits does not correspond with the number of futures commission merchants registered because all brokerage firms are not necessarily audited during a given year, while some houses are audited more than once a year.

tions in that commodity, on all markets. In wheat futures, for example, the reporting level is 200,000 bushels in one future on one market; in cotton, 5,000 bales in one future on one market.

The reporting requirements are set at levels which provide a day-to-day check on the trades and positions of individual large traders in a commodity, and furnish comprehensive information on a very important portion of the futures market for that commodity. The large-trader reports are particularly important in enabling the CEA to check on the positions of the larger speculators who operate near the speculative limits applicable in grains, cotton, soybeans, and eggs.

The reporting requirements in effect as of June 30, 1952, were as follows:

| Commodity: | *Quantity* |
|---|---|
| Wheat, corn, oats, rye, barley, flaxseed, soybeans | 200,000 bushels. |
| Grain sorghums | 11,200,000 pounds. |
| Rice, milled | 56,000 pockets. |
| Cotton | 5,000 bales. |
| Wool tops | 125,000 pounds. |
| Butter, eggs, potatoes | 25 carlots. |
| Cottonseed oil, soybean oil | 900,000 pounds. |
| Lard | 600,000 pounds. |
| Millfeeds (bran, shorts, middlings) | 1,000 tons. |
| Cottonseed meal, soybean meal | 1,500 tons. |

## REPORTS FROM BROKERS AND LARGE TRADERS

Basic information on futures trading operations is obtained by the Commodity Exchange Authority through a system of required daily reports from commodity brokers and large traders. The purpose of this system is to provide basic facts and figures for trading supervision and enforcement measures, and for reports to the Secretary of Agriculture, to the Congress, and to the general public.

Over-all market data are compiled from daily reports made to the CEA by the several hundred brokerage firms which are clearing members of exchanges. Each of these clearing firms reports each day the amount of trading and open positions in its customer and house accounts. From these reports the CEA field offices compile the figures on volume of futures trading and open contracts, which are released to the public each day.

During the 1952 fiscal year each of the 5 CEA field offices issued 1 or more such daily market releases covering the trading and open contracts in the markets in its area. Altogether the reports of the 5 offices covered all of the 20 commodities traded, on a market-by-market basis. A total of approximately 2,400 such daily market releases were issued during the year.

Information on the activities of large traders was obtained, as in former years, (1) from daily confidential reports made by brokerage firms on the positions of individual large traders having accounts with them; and (2) from larger traders themselves who are required to report daily the amount of their futures trades and positions.

Each day as the large-trader reports were received in CEA field offices they were individually examined for errors and omissions, and indications of noncompliance. Data on certain accounts, such as those involving more than one commodity or market, were checked between the field offices concerned, by mail or teletype as

needed; while the data on certain large accounts were teletyped to the Washington office on a daily basis. In addition to the work with these reports to determine compliance by individual large traders, data from the reports were tabulated and summarized for use in analyzing and appraising market conditions, and for inclusion in the permanent, official records on futures trading maintained by the CEA.

The total number of broker and trader reports obtained and analyzed by the CEA during the year was 560,510, compared with 505,752 in the preceding year, and 451,224 in fiscal 1950. Of the number in the recent year, 306,142 were brokers' reports from which the daily data on volume of trading and open contracts were compiled; and 254,368 were reports from large traders.

The number of large-trader accounts has increased considerably over the past 3 years, the average number in the markets each month rising from 562 in the 1950 fiscal year, to 656 in 1951, and to 719 in 1952. The number of large traders entering reporting status for the first time has also increased. In the 1950 fiscal year, 153 traders entered reporting status for the first time, in 1951 there were 240, and in the recent year 245.

In addition to the value of the large-trader reports in keeping the agency informed on traders' activities and market conditions generally, the maintenance of the reporting system was effective during the year in disclosing infractions of the speculative limits in grains, cotton, and eggs.

Information from the large-trader reports was also used effectively during the year in the preparation of evidence against traders charged with violations of the act, to assist in investigations of unusual or irregular market situations, and to provide evidence in hearings before the Commodity Exchange Commission looking to the establishment of speculative limits in lard, cottonseed oil, and soybean oil.

In 1951–52 as in prior years, a large part of the basic futures-market data released in the monthly statistical publications, Trade in Grain Futures and Trade in Cotton Futures was obtained through the reporting system. This also holds for most of the futures market data, and information on speculation and hedging by large traders, contained in the agency's annual statistical publication, Commodity Futures Statistics.

## VOLUME OF TRADING

Table 5 shows the volume of futures trading in each of the 20 commodities subject to regulation, for the fiscal year ended June 30, 1952, with comparative figures for the previous year.

Trading in most commodities approximately maintained or increased the relatively high level of activity registered in the 1951 fiscal year. In general, an increased volume of trading in the recent year in cotton, corn, oats, grain sorghums, flaxseed, cottonseed oil, and wool tops, more than offsets decreases in wheat, rye, eggs, soybean oil, and lard.

For all grains taken together the volume of trading, amounting to 12,795,000,000 bushels in the year ended June 30, 1952, was a little larger than in the previous year.

The wheat futures trading volume of 4,341,690,000 bushels on all markets reflected a 7.1 percent decrease as compared with the previous

year and a 3.3 percent increase compared with 1950. The proportion of wheat futures trading on the Chicago Board of Trade in the recent year was 68.6 percent, on the Kansas City Board of Trade 15.1 percent, and on the Minneapolis Grain Exchange 14.8 percent, with the remaining 1.5 percent on the other markets.

Corn futures trading, more than 98 percent of which took place on the Chicago Board of Trade, amounted to 2,639,639,000 bushels in the year ended June 30, 1952, representing an 18 percent increase over the preceding year. Activity in oat futures increased sharply. The 2,239,205,000 bushels of oats traded for future delivery was the largest volume since the 1948 fiscal year. Interest in rye futures was smaller.

TABLE 5.—*Volume of futures trading on all contract markets combined, by commodities, fiscal years ended June 30, 1951, and June 30, 1952*

| Commodity | Unit | 1951 | 1952 | Percent of increase or decrease |
|---|---|---|---|---|
| Wheat | 1,000 bushels | 4, 675, 715 | 4, 341, 690 | −7. 1 |
| Corn | do | 2, 236, 588 | 2, 639, 639 | +18. 0 |
| Oats | do | 1, 617, 253 | 2, 239, 205 | +38. 5 |
| Rye | do | 576, 216 | 426, 587 | −26. 0 |
| Soybeans | do | 2, 952, 610 | 2, 953, 180 | (1) |
| Flaxseed | do | 5, 607 | 40, 926 | +629. 9 |
| Grain sorghums | Million pounds | 2, 309 | 8, 634 | +273. 9 |
| Rice | 1,000 pounds | 2, 880 | 320 | −88. 9 |
| Cotton | 1,000 bales | 79, 067 | 94, 887 | +20. 0 |
| Wool tops | 1,000 pounds | 82, 780 | 172, 385 | +108. 2 |
| Butter | Carlots | 3, 236 | 8, 369 | +158. 6 |
| Eggs | do | 148, 811 | 90, 006 | −39. 5 |
| Potatoes | do | 2, 627 | 18, 181 | +592. 1 |
| Cottonseed oil | 1,000 pounds | 7, 331, 700 | 7, 989, 720 | +9. 0 |
| Soybean oil | do | 3, 532, 620 | 2, 795, 760 | −20. 9 |
| Lard | do | 2, 213, 080 | 1, 323, 880 | −40. 2 |
| Bran | Tons | 406, 800 | 285, 390 | −29. 8 |
| Shorts | do | 173, 670 | 161, 280 | −7. 1 |
| Cottonseed meal | do | 586, 800 | 584, 900 | −0. 3 |
| Soybean meal | do | 2, 292, 000 | 1, 972, 500 | −13. 9 |

[1] Less than 0.1 percent increase.

There was another large volume of soybean futures trading during the year. Futures trading in this commodity continued as the third largest, being exceeded only by wheat and cotton. The 2,953,180,000 bushels of soybeans traded for future delivery during the 1952 fiscal year was virtually the same amount as in the 1951 fiscal year, and was exceeded only by the record volume of 3,613,900,000 bushels traded in the 1950 fiscal year.

The increased interest in futures trading in grain sorghums which became apparent in 1951 was even more pronounced in 1952. The bulk of the trading was conducted on the Kansas City Board of Trade. The trading volume of 7,685,000,000 pounds on the Kansas City market in the 1952 fiscal year was more than three times the amount traded in 1951, and established a new all-time record for futures trading in the commodity.

After a long period of inactivity, the flaxseed futures market conducted by the Minneapolis Grain Exchange had the largest volume of trading in 10 years.

Trading in cotton futures on the New York, New Orleans, and Chicago markets amounted to 94,887,000 bales, which was 20 percent larger than in the preceding year, and greater by 43.6 percent than the average for the 10-year period, 1942–51. The New York Cotton Exchange accounted for 67,485,000 bales in the recent year which was 71.1 percent of the total; the New Orleans Cotton Exchange 26,032,000 bales, or 27.4 percent; and the Chicago Board of Trade 1,370,000 bales, or 1.5 percent. These proportions of trading on the 3 markets were not greatly changed from the previous year.

The wool top futures market in New York had another large increase in trading as compared with recent years. The volume of 172,385,000 pounds traded was more than double that of the 1951 fiscal year, and second only to the record of 184,635,000 pounds traded in 1939.

Activity in Chicago egg futures decreased in the year ended June 30, 1952, as compared with the previous year, but futures trading in two other "produce" commodities—butter and potatoes—was more active than for several years. Butter futures trading on the Chicago Mercantile Exchange, amounting to 8,317 carlots in the 1952 fiscal year, was 62 percent larger than in the previous year. Activity in potato futures, influenced by limited supplies and advancing prices, increased sharply. Trading on the New York Mercantile Exchange, which is for delivery of Maine potatoes, amounted to 17,901 carlots, the largest since 1948.

Futures trading in cottonseed oil on the New York Produce Exchange set a record volume of nearly 8 billion pounds. Soybean oil trading on the New York market declined sharply as compared with the previous year, but the volume on the Chicago Board of Trade, amounting to 2,155,560,000 pounds, was somewhat larger than in the preceding year. Trading in lard futures on the Chicago market was less active in 1951–52 than in 1950–51.

In the Memphis futures market for cottonseed meal and soybean meal the trading volume was below the relatively high level of the previous year, but substantially above other recent years. Futures activity in bran and shorts on the Kansas City Board of Trade declined somewhat in 1951–52 as compared with 1950–51.

## OPEN CONTRACTS

Table 6 shows the annual average of mid-month and month-end open contracts in regulated commodities for the fiscal years ended June 30, 1951, and June 30, 1952. The table also gives a breakdown of the average amounts of open contracts, long and short, held by small (nonreporting) traders, and by large (reporting) traders. A subbreakdown of the commitments of large traders reflects the average amounts which were reported as speculative (including spreading), and as hedging. The data, it should be noted, are annual averages and do not therefore reflect seasonal and other changes in open contracts and in traders' commitments within the year.

In 12 of 20 regulated commodities in which futures trading was conducted during the year, there were increases in average open con-

tracts as compared with the previous year; and decreases in 8 commodities.

Commodities reflecting increases as compared with the previous year included wheat, corn, oats, cotton, wool tops, and cottonseed oil, in all of which the annual average of open contracts was at the highest level in 10 years or more. In wheat, corn, and cotton, the amount of commitments reported as hedging was little changed from the previous year, the increases in open contracts being accounted for primarily by larger average holdings on the part of small traders or large speculators or both.

In other commodities, including oats, wool tops, and cottonseed oil, increases in the hedging commitments of reporting traders were an important factor in the higher level of open contracts. In soybeans the somewhat higher open-contract level was accounted for by increases in the average commitments of all three classes of traders—small traders, large speculators, and large hedgers.

The commodities reflecting decreases in annual averages of open contracts included eggs, soybean oil, rye, cottonseed meal, and soybean meal. The decreases in eggs and cottonseed meal tended to reflect changes in amount of commitments of small traders and large speculators rather than in reported hedging commitments. In rye, bran, and shorts, however, decreases in reported hedging commitments were important factors in the lower level of open contracts during the year. In soybean meal there was a pronounced decrease in reported short hedging commitments, and an increase in reported long hedging commitments.

TABLE 6.—*Open contracts and commitments of large (reporting) and small (nonreporting) traders, on all contract markets, average of mid-month and month-end figures, by commodities, fiscal years ended June 30, 1951, and June 30, 1952*

| Commodity and year | Unit | Total open contracts | Small (nonreporting) traders | | Large (reporting) traders | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Speculative [1] | | Hedging | |
| | | | Long | Short | Long | Short | Long | Short |
| Wheat: | | | | | | | | |
| 1950–51 | Million bushels | 97.5 | 47.6 | 26.8 | 29.5 | 20.8 | 20.4 | 49.9 |
| 1951–52 | do | 107.2 | 51.6 | 29.5 | 35.2 | 25.4 | 20.4 | 52.3 |
| Corn: | | | | | | | | |
| 1950–51 | do | 54.9 | 28.8 | 17.5 | 19.8 | 12.0 | 6.3 | 25.4 |
| 1951–52 | do | 65.9 | 37.9 | 24.1 | 21.8 | 15.2 | 6.2 | 26.6 |
| Oats: | | | | | | | | |
| 1950–51 | do | 45.0 | 31.9 | 15.8 | 11.9 | 11.8 | 1.2 | 17.4 |
| 1951–52 | do | 67.3 | 51.0 | 20.3 | 15.3 | 15.7 | 1.0 | 31.3 |
| Rye: | | | | | | | | |
| 1950–51 | do | 13.6 | 11.3 | 5.8 | 2.1 | 2.4 | .2 | 5.4 |
| 1951–52 | do | 10.0 | 7.5 | 5.7 | 2.2 | 2.1 | .3 | 2.2 |
| Soybeans: | | | | | | | | |
| 1950–51 | do | 39.7 | 21.3 | 23.5 | 11.5 | 10.5 | 6.9 | 5.7 |
| 1951–52 | do | 47.9 | 27.9 | 25.3 | 12.4 | 12.7 | 7.6 | 9.9 |

See footnotes at end of table.

TABLE 6.—*Open contracts and commitments of large (reporting) and small (nonreporting) traders, on all contract markets, average of mid-month and month-end figures, by commodities, fiscal years ended June 30, 1951, and June 30, 1952*—Continued

| Commodity and year | Unit | Total open contracts | Small (nonreporting) traders | | Large (reporting) traders | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Speculative [1] | | Hedging | |
| | | | Long | Short | Long | Short | Long | Short |
| Flaxseed: | | | | | | | | |
| 1950–51 | Million bushels | .4 | .4 | .4 | 0 | 0 | (2) | (2) |
| 1951–52 | do | 2.1 | 1.9 | 1.0 | .1 | 0 | .1 | 1.1 |
| Grain sorghums: | | | | | | | | |
| 1950–51 | Million pounds | 128.0 | 81.0 | 35.0 | 40.0 | 9.0 | 7.0 | 84.0 |
| 1951–52 | do | 572.0 | 223.0 | 117.0 | 169.0 | 17.0 | 180.0 | 438.0 |
| Rice: | | | | | | | | |
| 1950–51 | do | .5 | .5 | .5 | 0 | 0 | 0 | 0 |
| 1951–52 | do | .1 | .1 | .1 | 0 | 0 | 0 | 0 |
| Cotton: | | | | | | | | |
| 1950–51 | Million bales | 3.3 | 1.6 | 1.5 | .8 | .6 | .9 | 1.2 |
| 1951–52 | do | 3.6 | 1.9 | 2.0 | .7 | .6 | 1.0 | 1.0 |
| Wool tops: | | | | | | | | |
| 1950–51 | Million pounds | 6.0 | 5.3 | 3.2 | .1 | .2 | .6 | 2.6 |
| 1951–52 | do | 13.7 | 9.4 | 4.3 | 1.8 | .8 | 2.5 | 8.6 |
| Butter: | | | | | | | | |
| 1950–51 | Thousand carlots. | .2 | .2 | .1 | (3) | (3) | (3) | .1 |
| 1951–52 | do | .5 | .3 | .1 | .1 | (3) | .1 | .4 |
| Eggs: | | | | | | | | |
| 1950–51 | Thousand carlots. | 2.9 | 1.9 | 1.5 | .7 | .5 | .3 | .9 |
| 1951–52 | do | 2.3 | 1.7 | 1.2 | .4 | .3 | .2 | .8 |
| Potatoes: | | | | | | | | |
| 1950–51 | do | .4 | .4 | .3 | (3) | .1 | (3) | (3) |
| 1951–52 | do | 1.4 | .9 | .8 | .2 | .3 | .3 | .3 |
| Cottonseed oil: | | | | | | | | |
| 1950–51 | Million pounds | 265.8 | 120.9 | 71.1 | 120.9 | 80.6 | 24.0 | 114.1 |
| 1951–52 | do | 394.9 | 244.7 | 71.3 | 122.6 | 68.3 | 27.6 | 255.3 |
| Soybean oil: | | | | | | | | |
| 1950–51 | do | 162.9 | 84.4 | 21.6 | 58.3 | 28.3 | 20.2 | 113.0 |
| 1951–52 | do | 158.8 | 104.0 | 22.8 | 32.1 | 43.3 | 22.7 | 92.7 |
| Lard: | | | | | | | | |
| 1950–51 | do | 60.6 | 36.8 | 23.1 | 10.0 | 11.2 | 13.8 | 26.3 |
| 1951–52 | do | 73.7 | 49.8 | 23.1 | 9.8 | 12.9 | 14.1 | 37.7 |
| Bran: | | | | | | | | |
| 1950–51 | Thousand tons | 24.9 | 8.5 | 4.8 | .1 | (4) | 16.3 | 20.1 |
| 1951–52 | do | 14.6 | 8.0 | 4.7 | 1.5 | .2 | 5.1 | 9.7 |
| Shorts: | | | | | | | | |
| 1950–51 | do | 11.7 | 4.6 | 2.2 | .1 | .1 | 7.0 | 9.4 |
| 1951–52 | do | 8.8 | 4.6 | 3.5 | .6 | .1 | 3.6 | 5.2 |
| Cottonseed meal: | | | | | | | | |
| 1950–51 | do | 52.3 | 25.3 | 28.1 | 7.3 | 21.6 | 19.7 | 2.6 |
| 1951–52 | do | 50.5 | 12.1 | 23.9 | 15.1 | 19.0 | 23.3 | 7.6 |
| Soybean meal: | | | | | | | | |
| 1950–51 | do | 174.8 | 67.3 | 19.7 | 74.5 | 13.6 | 33.0 | 141.5 |
| 1951–52 | do | 158.0 | 39.7 | 48.3 | 66.0 | 41.4 | 52.3 | 68.3 |

[1] Including spreading or straddling.
[2] Less than 50,000 bushels.
[3] Less than 50 carlots.
[4] Less than 50 tons.

## COMPLIANCE PROCEDURES

The great majority of traders and brokers observe the requirements under the act. When, however, investigations point to serious infractions or willful violations of the act, the disciplinary procedure used to obtain compliance varies with the character of the violation. Compliance measures of a semiformal nature include warning letters and stipulations of compliance. To initiate a formal disciplinary action, evidence is submitted to support a complaint by the Secretary of Agriculture involving an administrative hearing and decision by the judicial officer of the Department, or the evidence may be submitted to the Department of Justice for criminal prosecution in a United States district court.

During the year ended June 30, 1952, there were nine warning letters formally advising the persons and firms involved that any recurrence of willful failure or refusal to fully comply with the requirements under the act would make it necessary to issue formal complaints involving administrative hearings on the charges against them. The purpose of six of these warning letters was to enforce compliance by traders who had exceeded speculative limits; two such letters dealt with the requirement that futures commission merchants (registered brokerage firms) must segregate and separately account for the funds of their customers, and one such letter dealt with failure to make required reports on trading operations.

In three instances commodity brokers and floor brokers, all members of contract markets, entered into stipulations of compliance to discontinue improper trading practices, in lieu of formal administrative proceedings. The practices involved included fictitious and "wash sales," and trading against customers' orders without prior consent. In the stipulations of compliance the brokers concerned admitted the relevant facts, agreed to discontinue all acts and violations of the Commodity Exchange Act, and further agreed that such stipulations should be admissible as evidence of acts and practices in violation of the act in any proceeding brought against them for any subsequent violation.

Five formal actions charging violations of the act were dealt with during the year. Two of these were prosecutions under the criminal provisions of the act handled by the Department of Justice (pp. 5–6 and 23–24); three involved complaints by the Secretary of Agriculture, with formal administrative proceedings, as follows:

CE–A Docket No. 47. *In re Ralph W. Moore.*—A complaint and notice of hearing, issued May 27, 1948, charged that Moore attempted to manipulate lard prices, and failed to submit required reports to the Commodity Exchange Authority on speculative transactions and positions in grain, cotton, and lard. In October 1947, the complaint charged, when Moore had a large long position in lard futures, he attempted to raise lard prices by means of a press memorandum which gave false and misleading information. Hearings in the case were completed on April 26, 1949, and the report of the referee filed March 10, 1950. The decision and order of the judicial officer, issued November 15, 1950, found that Moore attempted to manipulate lard prices and failed to submit required reports as charged. The effective date of the order was postponed on November 28, 1950, however, because

of an appeal by the respondent in the United States Court of Appeals for the District of Columbia.

On July 5, 1951, the court unanimously upheld the judicial officer's order of November 15, 1950, and on October 22, 1951, the United States Supreme Court refused to review the case. Accordingly, the judicial officer's stay order was vacated, and the order of November 15, 1950, reinstated, effective January 15, 1952, directing all contract markets to refuse trading privileges to Ralph W. Moore, either directly or indirectly, for a period of 90 days.

CE–A Docket No. 48. *In re Great Western Distributors, Inc., Nathaniel E. Hess, Charles S. Borden, Thomas F. Haynes, and Hartley L. Harris.*—A complaint of July 12, 1948, charged that the respondent corporation obtained a dominant and controlling position in the December 1947 egg-futures market in Chicago, cornered the commodity in Chicago and in interstate commerce, and attempted to manipulate the price, in violation of sections 6 (b) and 9 of the act.

Hearings in this case were held in Chicago on various dates in July, October, and December 1949, and the report of the referee filed August 29, 1950. The judicial officer of the Department, in a decision and order of June 20, 1951, found that the respondent corporation, Hess, and Borden, had cornered the egg market and attempted to manipulate the price, and directed all contract markets to refuse them trading privileges for a 1-year period, beginning July 20, 1951. The proceedings against Haynes and Harris were dismissed. This order was stayed on July 13, 1951, following an appeal by the respondents to the United States Court of Appeals for the Seventh Circuit. The case was pending before the court at the close of the fiscal year.

CE–A Docket No. 54. *In re George Sirota and Sons, George Sirota, Norman L. Sirota, Benjamin Sirota, Harry A. Aspinwall, and Dyke Cullum.*—A complaint and notice of hearing entered November 6, 1950, charged that George Sirota & Sons, a New York commodity brokerage partnership, Aspinwall, an employee, and Cullum, a trader, agreed and planned to operate futures trading accounts in a manner calculated to conceal the true names of the owners of the accounts, for the purpose of evading reporting requirements under the act, and that the respondents did evade such requirements with respect to open contracts in soybean oil and cottonseed oil on the New York Produce Exchange. The complaint also charged that the Sirota respondents diverted margin money of Cullum to margin transactions of a person other than Cullum, and failed to record in writing the true names of the parties to the transactions involved.

Hearings in the case were held in New York City and Washington, D. C., on various dates in January, February, and March 1951, and the suggested findings of fact, conclusions, and orders were filed in July 1951. The referee's report, filed March 12, 1952, recommended that the respondents be found guilty as charged, and denied trading privileges for a 15-day period. The respondents filed exceptions to the referee's report; and the case was before the judicial officer at the end of the fiscal year.

## CRIMINAL CASES

In the case against Charles B. Grady, charged in a criminal information of October 8, 1948, with swindling commodity customers, the

defendant was tried before the United States district court at Chicago, and on February 1, 1950, was sentenced to 1 year in prison and fined $5,000. On appeal by the defendant, the United States Court of Appeals for the Seventh Circuit on November 15, 1950, remanded the case to the district court for retrial. The case was pending before the court at the close of the fiscal year.

The case involving the indictment by a Federal grand jury of Great Western Food Distributors, Inc., and certain other defendants, and the filing of criminal informations against them in the United States district court at Chicago for alleged unlawful transactions in egg futures is summarized on pp. 5–6.

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# Report of the Administrator of the Commodity Exchange Authority

1953

UNITED STATES DEPARTMENT OF AGRICULTURE

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## Letter of Transmittal

UNITED STATES DEPARTMENT OF AGRICULTURE,
COMMODITY EXCHANGE AUTHORITY,
*Washington, D. C., October 20, 1953.*

HON. EZRA TAFT BENSON,
*Secretary of Agriculture.*

DEAR MR. SECRETARY: I submit herewith a report of the work of the Commodity Exchange Authority for the fiscal year ended June 30, 1953.

Sincerely yours,

J. M. MEHL,
*Administrator.*

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## CONTENTS

# Report of the Administrator of the Commodity Exchange Authority, 1953

## THE FARMER AND THE FUTURES MARKETS

Regulation under the Commodity Exchange Act of futures trading and speculation on commodity exchanges was of continuing importance to farmers in the 1953 fiscal year.

The maintenance of fair and openly competitive dealings in the futures markets concerns the farmer because prices registered in the futures markets are base prices used in buying and selling actual cash commodities, such as "cash wheat" and "spot cotton."

Futures prices are the basis for cash prices not only in the large terminal markets but also in hundreds of local markets and country points where farmers sell their crops.

Most of the wheat sold by United States farmers is priced in the first instance at so many cents or a fraction of a cent over or under the going price of "July wheat," "December wheat," or some other futures contract traded on the Chicago Board of Trade, the Kansas City Board of Trade, or the Minneapolis Grain Exchange.

The price paid for virtually every pound of cotton bought from farmers is geared directly to the price of futures contracts on the New York or the New Orleans Cotton Exchange.

Country grain elevators and local cotton merchants, in the great majority of instances, are guided by futures prices in posting their local buying prices and making offers to farmers. A substantial part of the cash income of farmers is derived from commodities sold at prices which buyers determine from day to day, or from hour to hour, by guiding on futures prices.

For futures prices to be a true reflection of basic supply and demand conditions, the trading in futures markets must be free from price manipulation, corners, or other arbitrary practices prohibited under the Commodity Exchange Act.

The long-run trends in farm commodity prices are determined, of course, by underlying forces of supply and demand, including domestic consumption and exports, the operation of the loan programs, and other factors. It is in the futures markets, however, that the immediate impact of these forces is felt, and the immediate price is registered which governs the farm price from day to day.

Much has been said and written to show that speculation in the futures markets does not permanently affect farm prices, although it may cause temporary price fluctuations. But the individual farmer does not sell at a permanent or average price. The price he gets is the price that prevails on the day his crop is marketed. The market that registers the price must be free from price distortion or manipulation every day of the year.

At times when farm prices are strong or rising, a temporary price decline of 5 percent due to improper functioning of a futures market

may not attract wide attention. But if a price decline of 10 percent due to economic conditions becomes a price decline of 15 percent due to excessive speculation or manipulation in a futures market it is understandably serious.

Thus, while fair practices in pricing and marketing are always important, their importance is more obvious in periods of large supply and lower prices. With larger supplies and lower prices of some agricultural commodities in the 1952–53 marketing season, adequate regulation of futures trading and speculation was of increased significance to the farmer.

This report summarizes some of the events in the commodity futures markets in the 1953 fiscal year, and the work done by the Commodity Exchange Authority to help maintain fair practices and orderly pricing conditions in these markets.

## COMMODITY FUTURES TRADING IN 1952–53

There were relatively large volumes of trading in most of the commodity futures markets in the year ended June 30, 1953. Buying and selling by speculators continued to account for a substantial part of the trading. With increased supplies of leading commodities, "hedging" sales by merchants and processors against inventories were a larger factor in the markets than in the previous year.

The most active period in futures trading during the fiscal year was in the fall of 1952 when there were large seasonal marketings of leading commodities. Activity tended to diminish in the winter and spring of 1953, particularly in cotton and fats and oils, but total grain futures trading continued relatively large, and in June 1953 was at the highest level of the fiscal year.

Futures prices of all regulated commodities except eggs and cottonseed oil showed net declines for the fiscal year, the year's high prices for most commodities being registered in the summer of 1952, and the year's lows for most commodities in June 1953.

In the major markets the declines in futures prices were orderly, and relatively free from sharp or disruptive fluctuations. In wheat futures there were only 2 days during the year when prices fluctuated the maximum permissible limit, and there were no days when fluctuation limits were reached in cotton, corn, or soybeans.

The number of traders in the markets increased during the year. Traders' accounts in all regulated commodities, as shown by CEA audits of brokerage firms, increased from 28,900 in the preceding year to 31,600 in the recent year. The latter was the highest level in the 6-year period for which the data are available.

The total number of transactions in the markets was a little larger than in the previous year. For all regulated commodities and markets total purchases and sales in terms of contract units were estimated at 8,792,000, which was an increase of 1.3 percent over the previous year.

Due to lower price levels, the dollar value of futures trading showed a decline, amounting to 7.4 percent compared with the previous year. The estimated value for all regulated commodities on contract markets in the 1953 fiscal year was $45,560,276,000, compared with $49,179,134,000 in 1952.

The dollar value of futures trading in regulated commodities in the recent year was more than 2½ times that of the trading in stocks and

bonds on the 16 registered security exchanges. The value of all transactions on the latter was $17,507,666,000 in the year ended June 30, 1953.

Cotton again accounted for a larger dollar value of futures trading than any other commodity, followed in order by soybeans, wheat, and corn.

TABLE 1.—*Estimated value of futures trading, by commodities, fiscal years 1951, 1952, and 1953*

| Commodity | 1951 | 1952 | 1953 |
|---|---|---|---|
| | *1,000 dollars* | *1,000 dollars* | *1,000 dollars* |
| Wheat | 11, 104, 823 | 10, 480, 840 | 8, 594, 689 |
| Corn | 3, 786, 543 | 4, 899, 170 | 4, 644, 765 |
| Oats | 1, 478, 169 | 2, 046, 633 | 1, 956, 340 |
| Rye | 954, 790 | 809, 662 | 1, 264, 224 |
| Flaxseed | 22, 742 | 165, 750 | 128, 309 |
| Soybeans | 8, 899, 167 | 8, 741, 413 | 9, 996, 504 |
| Grain sorghums | 54, 945 | 236, 572 | 20, 920 |
| Rice, milled | 373 | 33 | ---------- |
| Cotton | 16, 726, 624 | 18, 730, 694 | 16, 195, 411 |
| Wool tops | 251, 403 | 352, 527 | 297, 217 |
| Butter | 42, 437 | 120, 480 | 100, 251 |
| Eggs | 903, 223 | 547, 726 | 992, 547 |
| Potatoes | 2, 785 | 30, 635 | 213, 086 |
| Cottonseed oil | 1, 679, 692 | 1, 238, 407 | 489, 990 |
| Soybean oil | 625, 274 | 341, 083 | 361, 568 |
| Lard | 359, 847 | 193, 286 | 144, 563 |
| Bran | 19, 445 | 16, 595 | 13, 136 |
| Shorts | 9, 508 | 10, 145 | 11, 332 |
| Cottonseed meal | 45, 594 | 46, 763 | 7, 208 |
| Soybean meal | 176, 255 | 170, 720 | 128, 216 |
| Total | 47, 143, 639 | 49, 179, 134 | 45, 560, 276 |

During the year the larger supply situation in leading commodities was reflected in the makeup of the futures markets. In most commodities, traders' total market holdings (open contracts) averaged somewhat larger than in the previous year. While this resulted in some instances from increased speculative trading, in several leading commodities it was due in considerable part to larger inventories of cash commodities in commercial channels. Merchants and processors hedged such inventories with sales in the futures markets against the risk of price decline. This was reflected by the operations of hedgers reporting to the CEA.[1]

[1] Traders in reporting status, referred to as large traders, are those having positions of certain size, such as 200,000 bushels or more in 1 wheat future on 1 market, or 5,000 bales or more in 1 cotton future on 1 market. Large traders are required to report to the CEA daily the amount of their trading and positions. They also report the classification of their holdings, whether speculative or hedging, and thus the aggregate holdings of large speculators and of large hedgers are known from day to day. "Small traders" are those with holdings below the reporting levels. The aggregate positions of small traders are obtained from day to day by subtracting the aggregate positions of large traders from the total open contracts. Since small traders do not report, the proportions of their holdings which are speculative and hedging, respectively, are not known except when special surveys are made of all accounts. Such special surveys usually show that the greater part of the holdings of small traders is speculative.

At times the excess of short hedging positions over long hedging positions was more pronounced than in most years since World War II when supplies of leading commodities were relatively limited. In cotton, for example, with the larger supply situation of the recent year, the excess of hedging sales over hedging purchases was more pronounced than in any other year since World War II.

In most commodities large speculators (as a group) and small traders (as a group) were net long most of the time, and this tended to absorb the excess of hedging sales over hedging purchases.

At times, however, the purchase commitments of large speculators were little if any larger than speculative sales. In wheat, cotton, and wool tops, large speculators were net long in some degree at each midmonth and month-end during the year. In all other commodities, however, large speculators were net short part of the time. In oats and rye they were net short most of the time.

In most commodities small traders were net long somewhat more consistently than large traders, although at times the balance of small traders' purchases over sales was not great, and in important market situations small traders were net short. In cotton and soybeans, for example, small traders were net short in August and September 1952, and then shifted to net long when prices declined under the weight of fall marketings. In corn, small traders were net long for the greater part of the year, but shifted to net short in June 1953.

At the close of the fiscal year large speculators and small traders were net long in wheat, cotton, soybeans, and most other commodities, and large hedgers were net short in most commodities.

## RÉSUMÉ OF REGULATORY WORK

The Commodity Exchange Act was enforced during the year by special investigations of unusual price and market conditions, daily surveillance of all futures accounts in the large-trader categories, maintenance of speculative limits in leading commodities, and other regulatory measures.

Investigations of alleged or apparent violations of the act resulted in charges of price manipulation and cornering, excessive speculation in violation of prescribed limits, abusive floor trading practices, failure to make required reports on trading operations, and misuse of commodity customers' funds.

A corporation and 2 of its officers who in 1947 manipulated and cornered the Chicago egg market in violation of the act were denied all trading privileges for their own accounts, on all contract markets, for a period of 1 year. When the respondents appealed, the United States Court of Appeals upheld the Department's order, and the United States Supreme Court denied respondents' request for further review.

The registrations under the act of a group of New York brokers were ordered suspended for a 10-day period, for keeping false records, and for evading reporting requirements in soybean oil and cottonseed oil transactions. The trading privileges of a large Washington, D. C., speculator, for whom the transactions were handled, were suspended for a like period for evading reporting requirements.

Investigation of the importation of Canadian oats and the effect on oat prices in the United States led to formal proceedings against a large grain firm operating in United States and Canadian markets. The complaint charged that the firm exceeded speculative limits in oat futures, made false reports to the Government on oat futures operations, and manipulated and depressed the price of oats in the Chicago market.

Investigations of the speculative boom and price spiral in New York potato futures in August 1952, and subsequent price collapse, did not disclose evidence of manipulation or other substantive violations of the Commodity Exchange Act. The investigations did show, once again, how rapidly increased speculative buying, stimulated by exaggerated rumors of market scarcity and a low margin requirement, can contribute to boom-and-bust conditions in a market.

The CEA made marketwide surveys during the year of the futures holdings of all traders, large and small, in the major futures markets for wheat, corn, oats, rye, soybeans, cotton, eggs, and potatoes. Taking data directly from the books of exchange clearing members and other brokerage firms, CEA accountants and analysts compiled information on more than 20,000 individual accounts.

During the year the required daily reports made by large speculators and hedgers, and by exchange clearing members, continued to provide current basic information for market regulatory work. An average of more than 1,000 large traders, exchange clearing firms, and brokerage houses, were in daily reporting status to the CEA during the year. More than a half million required reports were obtained and analyzed.

To effect economy and increase efficiency in the operation of the reporting system, the agency concentrated particularly on making improvements in internal operating procedures in the examination and tabulation of reports, the simplification of reporting forms, revision of procedural instructions and handbooks, and the increased use of machine tabulation.

In view of the relatively high level of market activity and declining prices of some commodities, the enforcement of limits on heavy trading by large speculators was an important factor during the year in preventing price raids and market manipulation. Such limits, previously established for grain, cotton, soybeans, and eggs, were also put into effect during the year for cottonseed oil, soybean oil, and lard.

Safeguards against abusive floor-trading practices which arise from noncompetitive transactions were strengthened during the year by amendments to the regulations under the act.

Additional work was done to prevent price manipulation by speculators resorting to the "group action technique." Special examinations were made of the futures-market operations of a number of merchandising and processing firms to determine whether large futures positions reported as hedges qualified as such under the Commodity Exchange Act.

CEA examiners audited the books and records of most of the commodity brokerage firms currently registered under the act as futures commission merchants. The number of floor brokers registered under the act during the year was larger than in any other year since the beginning of Federal regulation.

## PREVENTION OF ABUSIVE FLOOR-TRADING PRACTICES

With the cooperation of the exchanges, substantial progress was made during the year to prevent abusive floor-trading practices that arise from so-called "noncompetitive" executions. For several years CEA surveys of floor-trading practices have indicated the need for a general tightening of requirements governing such transactions.

It is a cardinal principle of exchange trading that purchases and sales be openly and competitively executed. "By open outcry" is a term which has long been used in the trade and in exchange regulations to express the principle of free and open competition in the market. The Commodity Exchange Act and regulations prohibit such practices as the bucketing of customers' orders, taking the other side of customers' orders without prior consent, wash sales, and similar abusive transactions.

In certain situations there are legitimate reasons for noncompetitive executions, as in the transfer of a trader's contracts from one brokerage firm to another involving no change of ownership, or in the exchange of futures contracts in connection with cash commodity transactions. There are many other instances, however, in which questionable noncompetitive executions and "ex-pit" transactions detract seriously from the competitive character of the market and open the way for abusive practices in the execution of customers' orders.

For a long period the regulations under the act have specified how certain legitimate types of noncompetitive transactions may be lawfully executed. But hitherto the regulations under the act and the rules of some contract markets have not made it perfectly clear that competitive executions are a general requirement, that those types of noncompetitive transactions which are permissible must be specifically provided for by exchange rules, and that each such transaction engaged in by an exchange member must be so clearly identified and recorded that it may be readily checked to determine compliance.

Enforcement was tightened in the first instance by writing into the regulations under the act a general requirement that all purchases and sales be competitively executed "by open outcry" on the trading floor, or by other equally open and competitive method, with only such exceptions permitted as are specifically provided for in written rules of the exchange which have been submitted to and not disapproved by the Secretary of Agriculture. This was accomplished by basically amending section 1.38 of the regulations under the act, effective April 1, 1953.

The exchanges which did not have rules adequate to meet the requirements of the amended regulation took measures to comply. To its basic rule on the open-market character of exchange trading the Chicago Board of Trade added the words "competitively by open outcry," and a similar rule of the New York Cotton Exchange, which already included the words "by open outcry," was amended to add the word "competitively." Generally speaking, the rules which these and other exchanges adopted or amended provide for the competitive execution of all but exempted transactions, identify the various types of permissible noncompetitive transactions, require full reports from exchange members when noncompetitive transactions are executed, and specify the kind of related records that must be kept.

Exchange officials who worked with CEA representatives in writing and revising rules to strengthen the competitive character of exchange trading have performed a very real service for their respective markets. The ultimate test of their efforts will depend, of course, on how effectively the new or revised regulations are observed by exchange members. Periodic CEA investigations and surveys of floor practices will determine to what extent the requirements are being observed by exchange members, and abusive practices prevented by exchange officials.

The amended regulations under the act should lend a measure of economy as well as increased efficiency in the enforcement of statutory provisions against wash sales, cross trades, accommodation trades, and similar fictitious transactions. Proof in cases of alleged or apparent violation will no longer depend on the time-consuming process of gathering and substantiating a complicated and technical body of evidence. The simpler test of competitive execution of all but exempted transactions, and the proper recording of those exempt, should greatly facilitate the detection of violations.

## MANIPULATION BY GROUP ACTION

There was further evidence during the year of efforts to manipulate prices by "group action." Over the years, as the enforcement of speculative limits has made it more and more difficult for the individual large trader and "market leader" to manipulate prices single-handed, certain types of professional operators have turned to the group action technique as a possible means of dominating the market and evading the law. Their activities present the Commodity Exchange Authority with a complex and difficult enforcement problem.

Manipulative activity by the group technique involves a number of closely associated speculators whose combined activities are large enough to manipulate the price, although no one of the group may have holdings large enough to exert an apparent price effect. In order to prove manipulation in such instances it may be necessary to establish collusion or common understanding among members of the group. Usually this is difficult, and must be based largely on circumstantial evidence, since the members of the group are not likely to admit collusive action, and the contacts between the various participants are not ordinarily committed to writing.

A criminal indictment was obtained during the preceding fiscal year against a group operating in eggs in the manner above described. Evidence of similar operations by another group during the recent year resulted in a formal complaint (filed after the close of the year) charging price manipulation and cornering.

Dealing effectively with group manipulative activities requires a large amount of detailed and time-consuming enforcement work, both in investigations and in the assembling and presentation of evidence at hearings. The complexity of the trading operations involved may offer those charged with manipulation the maximum opportunity for the employment of technicalities in efforts to delay or evade the processes of law. Formal administrative complaints and hearings may extend over a long period, and meanwhile the group may continue its manipulative activities.

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While administrative actions are designed to put manipulators out of the markets as promptly as possible, such actions are subject to review by the Federal courts and may continue over a long period before becoming effective.

The use of subpena power in investigations under the act, as proposed in legislation now pending in Congress, would simplify and strengthen enforcement measures against this type of activity. In certain instances, persons familiar with the facts have given informal oral information which they refused to repeat in the ensuing formal proceedings. If the original information had been given under oath following subpena, it would have afforded evidence which would have contributed substantially to successful action.

Large-scale attempts to manipulate prices by group action may be more harmful to the public interest than the manipulative efforts of the individual large speculator. Full use will be made of all powers under the act in dealing with the group action technique.

## ENFORCEMENT OF SPECULATIVE LIMITS

The enforcement by the Commodity Exchange Authority of limits on heavy speculation by large traders is a major safeguard against unwarranted price fluctuations in the commodities to which such limits apply.

In futures-market regulation a speculative limit is a specified amount, such as the 2 million-bushel limit provided for wheat futures and the 30,000-bale limit for cotton futures, which no individual trader, firm, or corporation may exceed, either in daily trading or in net market holdings. The limits do not apply to bona fide hedging transactions and positions.

The purpose of such limits is to prevent the large speculator and so-called market leader from affecting prices artificially by the magnitude of his speculative operations—or precipitating price collapse when the price turns against him and he is forced to dump his holdings on a declining market.

Speculative limits for most grains were established in 1938, and for cotton in 1940, after a long period of experience had shown that such curbs were necessary to protect the markets and the price structure against excessive speculative activity. Speculative limits for soybeans and eggs were established in 1951 and for lard, cottonseed oil, and soybean oil in 1953.

Authority to establish such limits is vested in the Commodity Exchange Commission, consisting of the Secretary of Agriculture, Secretary of Commerce, and the Attorney General. The establishment of limits in a commodity is based upon investigation and analysis of the effects of speculation in the commodity and the presentation of evidence in public hearings at which all interested parties have an opportunity to testify.

In 1953, as in former years, there were a considerable number of large speculators who operated at or just under the maximum permissible levels. Speculative limits were exceeded in 32 instances, compared with 28 in the previous year. The infractions in the recent year were as follows: wheat, 1; oats, 1; rye, 10; soybeans, 4; cotton, 2; eggs, 5; cottonseed oil, 5; soybean oil, 2; and lard, 2.

The larger number of violations in rye than in other commodities was accounted for primarily by traders exceeding the limits on daily trading rather than on market positions. Infractions of the speculative limits in soybeans were noticeably fewer than in the previous year. There were 9 infractions of the newly established limits for cottonseed oil, soybean oil, and lard which became effective April 1, 1953. Most of these resulted when a few traders with large speculative positions acquired prior to April 1, attempted to carry forward such positions into more deferred futures.

In most cases in which speculative position limits were exceeded during the year, if the speculator involved promptly reduced his line as required, formal disciplinary action was not taken. In a smaller number of more serious cases, traders were put on notice with official warning letters, were required to enter into stipulations of compliance, or were charged with violations in formal administrative proceedings.

During the year, hearings before the Commodity Exchange Commission to establish speculative limits for cottonseed oil, soybean oil, and lard were completed, and limits were placed in effect as of April 1, 1953.

The initial hearings, at which the evidence resulting from CEA investigations of speculative trading in these commodities was presented, were held in Washington on July 28 and 29, 1952. Representatives of the trade and the exchanges also testified. After consideration of the record the following speculative limits were established by the Commission, effective April 1, 1953:

| | *Pounds* |
|---|---|
| Cottonseed oil | 3, 600, 000 |
| Soybean oil | 3, 000, 000 |
| Lard | 1, 600, 000 |

Cottonseed oil, soybean oil, and lard were the first processed commodities to which speculative limits were applied, and presented certain problems not encountered in establishing limits on raw commodities. Recognizing this, the CEA recommended to the Commission that certain exceptions be made for manufacturers and processors, and these recommendations were included in the Commission's order. After the limits became effective, the CEA gave further consideration to their effect on manufacturers and processors and recommended to the Commission that another public hearing be held. At this hearing, held in Washington on May 25, trade representatives presented testimony and requested time for the preparation of additional evidence. Accordingly, the hearing was recessed, to be resumed in Chicago on July 13.

## DELIVERIES ON FUTURES CONTRACTS

As a means of guarding against price disturbances and manipulative activities, particularly during the delivery period of expiring futures, the CEA continued to maintain regular surveillance of deliveries and delivery practices on all contract markets. It required exchange clearing members to submit copies or originals of all notices issued by shorts of intention to deliver actual commodities in settlement of futures contracts; and worked with exchange officials to guard against market congestion or other obstructions to the orderly liquidation of expiring futures.

In general, limited amounts of deliveries on futures contracts are considered to be a good indication of smooth-working futures markets. Commodity traders, both speculators and hedgers, do not ordinarily consider it good business to settle futures contracts by the delivery of actual commodities,[2] and in the vast majority of instances close out their contracts prior to delivery by offsetting futures sales against futures purchases, and vice versa.

Although the general relationship of delivery settlements to market activity did not change fundamentally from historical precedent in 1953, there were marked increases in absolute amounts of delivery settlements as compared with the previous year.

For all commodities and markets the number of delivery notices filed with the CEA by exchange clearing members during the year was 43,524, compared with 30,269 in the preceding year, or an increase of 44 percent.

As reflected in table 2, deliveries in settlement of futures contracts in wheat on the Chicago Board of Trade, aggregating 25,079,000 bushels, were nearly double the amount in the preceding year. Deliveries in settlement of futures contracts in corn on the Chicago market, amounting to 29,684,000 bushels, and deliveries of cotton on the New York market, amounting to 325,800 bales, were more than double the corresponding amounts for the preceding fiscal year. Deliveries of lard and soybean oil in Chicago were also sharply above the previous year's levels.

For commodities reflecting increased deliveries the degree of increase varied for a diversity of reasons, but the underlying factor in most instances was the larger supply situation. This caused sellers, in a greater number of instances than usual, to dispose of inventories by delivering them on futures contracts.

In wheat, for example, deliveries on the December 1952 future at Chicago were the largest in many years. This reflected the relatively weak cash position of No. 2 Red Winter wheat, due partly to large supplies of soft wheat. Record large deliveries on cotton futures contracts at New York reflected the situation of numerous merchants who in the fall and early winter of 1952 judged it advantageous to purchase and carry forward supplies of spot cotton, but who, in the spring of 1953, found it less advantageous to do so, and in some instances made relatively large deliveries on futures contracts rather than attempt to carry cotton forward for later sale in the spot market.

Table 2 also shows deliveries as percent of contracts remaining open on "first notice day." Ordinarily, by first notice day most traders in

[2] Speculators trade to make a profit from price changes and in most cases would find it costly and troublesome to become involved in the delivery process. Merchants and processors use the futures markets as a means of hedging price risks, and usually do not look upon the futures markets as a source of supply or as a merchandising outlet for cash commodities. The reason, of course, is that in buying and selling cash commodities merchants and processors prefer to deal in the cash markets, contracting for the specific grades and quantities required for their needs and for the preferences of their customers. Since deliveries on futures contracts in most commodities may be made in a variety of grades, and at seller's option, merchants and processors with long hedging positions in futures usually do not wish to run the risk of receiving unwanted grades that might be involved in standing for delivery. Sellers who make a business of merchandising cash commodities ordinarily expect to realize a premium in the cash market as compared with delivery in the futures market.

TABLE 2.—*Deliveries: Contracts settled by delivery, and deliveries as percentage of open contracts, beginning of first notice day, by commodities on selected markets, fiscal years 1952 and 1953*

| Commodity | Market | Unit | Deliveries | | Open contracts beginning of 1st notice day | | Percent | |
|---|---|---|---|---|---|---|---|---|
| | | | 1952 | 1953 | 1952 | 1953 | 1952 | 1953 |
| Wheat | Chicago Board of Trade | 1,000 bushels | 14, 907 | 25, 079 | 52, 420 | 58, 675 | 28. 4 | 42. 7 |
| Do | Minneapolis Grain Exchange | do | 11, 881 | 3, 467 | 19, 595 | 10, 230 | 60. 6 | 33. 9 |
| Do | Kansas City Board of Trade | do | 7, 790 | 11, 051 | 19, 561 | 20, 267 | 39. 8 | 54. 5 |
| Corn | Chicago Board of Trade | do | 12, 200 | 29, 684 | 58, 076 | 70, 263 | 21. 0 | 42. 2 |
| Oats | do | do | 37, 236 | 40, 550 | 49, 512 | 78, 488 | 75. 2 | 51. 7 |
| Rye | do | do | 6, 869 | 9, 452 | 13, 649 | 15, 446 | 50. 3 | 61. 2 |
| Soybeans | do | do | 8, 848 | 7, 903 | 49, 312 | 64, 581 | 17. 9 | 12. 2 |
| Grain sorghums | do | Million pounds | 196 | 53 | 198 | 60 | 99. 0 | 88. 3 |
| Do | Kansas City Board of Trade | do | 509 | 101 | 569 | 258 | 89. 5 | 39. 1 |
| Cotton | New York Cotton Exchange | 1,000 bales | 130. 8 | 325. 8 | 1, 192. 1 | 1, 530. 4 | 11. 0 | 21. 3 |
| Do | New Orleans Cotton Exchange | do | 31. 2 | 31. 5 | 201. 0 | 346. 4 | 15. 6 | 9. 1 |
| Wool tops | Wool Associates of the New York Cotton Exchange. | 1,000 pounds | 4, 395 | 3, 560 | 5, 985 | 11, 115 | 73. 4 | 32. 0 |
| Butter | Chicago Mercantile Exchange | Carlots | 231 | 355 | 678 | 781 | 34. 1 | 45. 5 |
| Eggs | do | do | 706 | 1, 287 | 4, 666 | 5, 918 | 15. 1 | 21. 7 |
| Potatoes | New York Mercantile Exchange | do | 246 | 900 | 1, 326 | 4, 311 | 18. 6 | 20. 9 |
| Cottonseed oil | New York Produce Exchange | 1,000 pounds | 95, 160 | 88, 320 | 193, 680 | 282, 060 | 49. 1 | 31. 3 |
| Soybean oil | Chicago Board of Trade | do | 33, 960 | 69, 180 | 58, 680 | 138, 720 | 57. 9 | 49. 9 |
| Lard | do | do | 18, 720 | 138, 160 | 74, 800 | 179, 960 | 25. 0 | 76. 8 |
| Bran | Kansas City Board of Trade | Tons | 5, 610 | 18, 570 | 46, 650 | 44, 940 | 12. 0 | 41. 3 |
| Shorts | do | do | 7, 560 | 21, 060 | 27, 600 | 41, 850 | 27. 4 | 50. 3 |
| Cottonseed meal | Memphis Merchants Exchange Clearing Association. | do | 1, 300 | 1, 500 | 8, 100 | 5, 800 | 16. 0 | 25. 9 |
| Soybean meal | do | do | 7, 200 | 14, 200 | 42, 800 | 89, 200 | 16. 8 | 15. 9 |

a futures market will have closed out their positions in the near future by offset. Contracts remaining open in large volume on first notice day may reflect the operations of merchants and processors with short futures positions who desire to make delivery, the holdings of longs who intend to "stand for delivery" in order to obtain needed supplies, or the operations of speculators hopeful of "last minute" profits.

Because of relatively large deliveries and other market factors in the recent year, intensive surveillance was maintained to determine whether delivery settlements involved normal competitive purposes, or possible manipulative activities. One of the classic manipulative devices—tried in one market during the year—is to hold large long positions in an expiring future (with or without control of a good part of the deliverable supply), then stand for delivery, squeeze the shorts, and run up the price. Another, also tried recently on a large scale, is to make deliveries on a certain amount of short positions in order to depress the price, either for the purpose of increasing profits on additional short positions in the delivery month, or to manipulate the spread between that month and a deferred future.

To diminish or prevent such manipulative operations it is necessary, of course, to watch the liquidation of open contracts in expiring futures, and keep currently informed on the size and location of commodity stocks available for delivery, the issuance of delivery notices, and the operations of large speculators and hedgers who become heavily involved in the delivery process. Some idea of the size of the delivery surveillance job is indicated by the fact that the number of expiring futures in all markets and commodities during the recent year was more than 200.

## SPECULATIVE MARGIN REQUIREMENTS

The volume of speculative trading in commodity futures is affected by the amount of money which traders are required to put up to finance or "margin" their trades. While a commodity brokerage firm may require its customers to put up as much money as it deems advisable to adequately finance their transactions, it may not, under exchange rules, require less than a certain specified minimum, as determined from time to time by the exchange.

Table 3 shows the minimum initial customers' margin required for speculative trading, as of June 30, 1953, on specified markets, by commodities. The table shows the amount of margin required per unit of the commodity, the amount per futures contract, and the margin requirement as a percentage of the price.

In the case of wheat on the Chicago Board of Trade, for example, the minimum requirement on June 30, 1953, was 15 cents per bushel or $750 per contract of 5,000 bushels, equivalent to 7.9 percent of the contract price.

For most commodities the level of minimum requirements for speculative trading at the end of the recent year ranged around 10 percent of the price and contract value, with several outstanding exceptions, however. In general the level of margin requirements at the end of the recent year reflected for most commodities a continuation of the reduced rates put into effect by the exchanges during the previous year. In the case of cotton, wheat, and soybean oil there were further reductions by the exchanges.

TABLE 3.—*Speculative margins: Minimum initial margin required by exchanges and margin as percent of closing price of near future, for specified commodities and markets, June 30, 1953*

| Commodity | Market | Unit | Contract | Margin per— Unit | Margin per— Contract | Price per— Unit | Price per— Contract | Margin as percent of price [1] |
|---|---|---|---|---|---|---|---|---|
| | | | | *Dollars* | *Dollars* | *Dollars* | *Dollars* | |
| Wheat | Chicago Board of Trade | Bushel | 5,000 bushels | 0. 15 | 750 | 1. 90⅛ | 9, 506 | 7. 9 |
| Do | Kansas City Board of Trade | do | do | . 15 | 750 | 1. 99½ | 9, 975 | 7. 5 |
| Do | Minneapolis Grain Exchange | do | do | . 15 | 750 | 2. 14⅜ | 10, 719 | 7. 0 |
| Corn | Chicago Board of Trade | do | do | . 12 | 600 | 1. 54¼ | 7, 712 | 7. 8 |
| Oats | do | do | do | . 07 | 350 | . 72¾ | 3, 638 | 9. 6 |
| Rye | do | do | do | . 15 | 750 | 1. 30⅜ | 6, 519 | 11. 5 |
| Soybeans | do | do | do | . 25 | 1, 250 | 2. 78⅛ | 13, 906 | 9. 0 |
| Flaxseed | Minneapolis Grain Exchange | do | 1,000 bushels | . 50 | 500 | 3. 62½ | 3, 625 | 13. 8 |
| Grain sorghums | Chicago Board of Trade | Hundredweight | 3,000 hundredweight | . 25 | 750 | 2. 70 | 8, 100 | 9. 3 |
| Cotton | New York Cotton Exchange | Pound | 100 bales | . 01 | 500 | [2]. 332 | 16, 600 | 3. 0 |
| Do | New Orleans Cotton Exchange | do | do | . 01 | 500 | [2]. 332 | 16, 600 | 3. 0 |
| Wool tops | Wool Associates of the New York Cotton Exchange. | do | 5,000 pounds | . 20 | 1, 000 | 1. 914 | 9, 570 | 10. 4 |
| Butter | Chicago Mercantile Exchange | do | 20,000 pounds | . 04 | 800 | [2]. 612 | 12, 240 | 6. 5 |
| Eggs | do | Dozen | 14,400 dozen | [2]. 035 | 500 | [2]. 525 | 7, 560 | 6. 6 |
| Potatoes | New York Mercantile Exchange | Hundredweight | 500 hundredweight | . 48 | 240 | 1. 85 | 925 | 25. 9 |
| Cottonseed oil | New York Produce Exchange | Pound | 60,000 pounds | . 02 | 1, 200 | [2]. 154 | 9, 240 | 13. 0 |
| Soybean oil | do | do | do | [2]. 013 | 800 | [2]. 105 | 6, 300 | 12. 7 |
| Do | Chicago Board of Trade | do | do | [2]. 013 | 800 | [2]. 104 | 6, 240 | 12. 8 |
| Lard | do | do | 40,000 pounds | . 02 | 800 | [2]. 089 | 3, 560 | 22. 5 |
| Bran | Kansas City Board of Trade | Ton | 120 tons | 6. 00 | 720 | 40. 75 | 4, 890 | 14. 7 |
| Shorts | do | do | do | 6. 00 | 720 | 44. 25 | 5, 310 | 13. 6 |
| Cottonseed meal | Memphis Merchants Exchange Clearing Association. | do | 100 tons | 5. 00 | 500 | 58. 50 | 5, 850 | 8. 5 |
| Soybean meal | do | do | do | 5. 00 | 500 | 66. 00 | 6, 600 | 7. 6 |

[1] Figures rounded to nearest tenth of 1 percent.
[2] Figures rounded to nearest thousandth of a dollar.

On the New York Cotton Exchange the minimum initial requirement for speculative trading was reduced, under the sliding scale arrangement in effect on that exchange, from $25 per bale (near future) as of June 30, 1952, to $5 on June 30, 1953. In relation to price and contract value, the requirement on these respective dates dropped from 12.5 percent to 3 percent. There was a similar reduction on the New Orleans Cotton Exchange. With a minimum requirement of $500 to margin the purchase or sale of a cotton futures contract valued at approximately $16,000, the minimum amounts needed to finance speculation in cotton futures were at the lowest level in many years.

## PROPOSED LEGISLATION

An area for potential improvement in the enforcement of the Commodity Exchange Act is indicated by the need for subpena power in the investigation of alleged or apparent violations of the law. The Commodity Exchange Act does not confer authority to subpena persons and records in the process of an investigation. Such power is now used by a number of enforcement agencies, including the Securities and Exchange Commission, whose enforcement problems are similar to those of the Commodity Exchange Authority.

Authority under the act to use the investigatory subpena would assist in determining whether sufficient evidence exists to warrant the institution of formal administrative proceedings. Evidence procured pursuant to investigatory subpena would aid materially in the effective conduct of such proceedings. Furthermore, the expense of formal hearings would be avoided in those instances in which complete investigation, supported by subpena, failed to disclose sufficient evidence to warrant formal proceedings.

Legislation to provide investigatory subpena power under the act has been recommended on several occasions in previous years. A bill (S. 1990) to grant such power was introduced in the 1st session of the 83d Congress.

## PUBLICATIONS

To widen public understanding of futures-trading regulation, and the importance to agriculture of fair market practices, the CEA issued a brief, popular-type publication (USDA Leaflet No. 330) which tells in simple terms what the Commodity Exchange Act is, and what the Commodity Exchange Authority does to regulate futures trading and speculation on the exchanges. The publication was designed to meet the needs of county agents and extension workers, and marketing teachers and students, as well as the general public. Requests for more than 20,000 copies were received during the year.

Another publication of particular interest during the year brought together useful summary statistics on grain futures trading for the 30-year period of Federal regulation, down to 1951. Grain Futures Statistics, 1921–51, is the title of this bulletin. It provides annual and monthly data on volume of trading, open contracts, prices, and deliveries. It includes data on minor grains which had not been published in readily accessible form, and also presents hitherto unpublished data on the speculative and hedging positions of large traders in wheat and corn futures.

There was evidence during the year of the increasing usefulness of the agency's annual statistical publication, Commodity Futures Statistics. Devoted exclusively to the basic data of futures trading, this annual bulletin presents current and background statistics for all commodities and markets in which futures trading is conducted subject to regulation under the act. First published for the 1941 fiscal year, Commodity Futures Statistics has come to be recognized as a standard reference and source of data for the study and analysis of futures market conditions.

## CONTRACT MARKETS UNDER SUPERVISION

A commodity exchange, in order to conduct futures trading in a commodity covered by the Commodity Exchange Act,[3] must be licensed, or "designated," under the act as a "contract market." To qualify as a contract market and maintain its designation, an exchange must conform with certain standards and conditions governing market location, commodity inspection service, prevention of price manipulation, exchange membership rights of farmer cooperatives, and other requirements set forth under the act.

The following list shows the 17 commodity exchanges which are currently designated as contract markets, and the 19 commodities in which futures trading was conducted under CEA supervision during the year.

| *Market* | *Regulated commodity* |
|---|---|
| Chicago Board of Trade | Wheat, corn, oats, rye, soybeans, lard, cotton, soybean oil, grain sorghums, soybean meal. |
| Chicago Mercantile Exchange | Butter, eggs, potatoes. |
| Chicago Open Board of Trade | Wheat, corn, oats, rye, soybeans. |
| Duluth Board of Trade | (No trading in 1952–53.) |
| Kansas City Board of Trade | Wheat, corn, bran, shorts, grain sorghums. |
| Memphis Merchants Exchange Clearing Association. | Cottonseed meal, soybean meal. |
| Milwaukee Grain Exchange | Wheat, corn, oats, rye. |
| Minneapolis Grain Exchange | Wheat, oats, rye, flaxseed. |
| New Orleans Cotton Exchange | Cotton, cottonseed oil. |
| New York Cotton Exchange | Cotton. |
| New York Mercantile Exchange | Eggs, potatoes, butter. |
| New York Produce Exchange | Cottonseed oil, soybean oil. |
| Portland Grain Exchange | (No trading in 1952–53.) |
| St. Louis Merchants' Exchange | (No trading in 1952–53.) |
| San Francisco Grain Exchange | (No trading in 1952–53.) |
| Seattle Grain Exchange | Wheat. |
| Wool Associates of the New York Cotton Exchange. | Wool tops. |

The above list reflects a decrease of one contract market as compared with the preceding year. The designation of the Los Angeles Grain Exchange, which had not conducted futures trading for a number of years, was vacated, pursuant to application by the exchange, effective May 1, 1953.

The number of commodities in which futures trading was conducted under the act during the year also reflects a reduction of one, due to the

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[3] The Commodity Exchange Act applies to the following commodities: Wheat, corn, oats, rye, barley, flaxseed, grain sorghums, millfeeds, cotton, rice, butter, eggs, Irish potatoes, wool tops, fats and oils, cottonseed, cottonseed meal, peanuts, soybeans, and soybean meal.

inactivity in rice on the New York Mercantile Exchange. In all other respects the various markets conducted futures trading in the same regulated commodities as in the previous fiscal year.

## REGULATION OF BROKERAGE ACTIVITIES

Although much of the trading in commodity futures is done by exchange members, a large and essential part comes from nonmember traders widely spread throughout the United States and known as outside customers. The orders of outside customers are executed for them by certain exchange members who, in their capacity as brokers, handle the orders of others, members or nonmembers. Customers must necessarily place a high degree of trust and confidence in commodity brokers who handle their trading accounts and trading funds.

As a means of regulating commodity brokerage activities and safeguarding commodity traders against improper brokerage practices, the Commodity Exchange Act requires all brokers in regulated commodities to register with the Government each year, and to make proper accounting of the funds of customers entrusted to them for trading purposes.

Under the act, commodity brokers engaged in soliciting or accepting orders for the purchase or sale of commodity futures on a contract market are required to register each year as futures commission merchants. Floor brokers, who are engaged in the execution of customers' orders on the floor of an exchange, are also required to register annually.

There was a further increase during the year in the number of floor brokers registered by the CEA. The number registered was 866, compared with 827 in the previous year, and was larger than in any other year since Federal regulation of futures trading began.

TABLE 4.—*Registered futures commission merchants: Number of principal and branch offices, end of fiscal year, 1944–53*

| Year ended June 30— | Principal offices | Branch offices | Total |
|---|---|---|---|
| | *Number* | *Number* | *Number* |
| 1944 | 509 | 924 | 1, 433 |
| 1945 | 513 | 946 | 1, 459 |
| 1946 | 542 | 1, 006 | 1, 548 |
| 1947 | 562 | 1, 094 | 1, 656 |
| 1948 | 591 | 1, 116 | 1, 707 |
| 1949 | 592 | 1, 149 | 1, 741 |
| 1950 | 584 | 1, 168 | 1, 752 |
| 1951 | 578 | 1, 202 | 1, 780 |
| 1952 | 585 | 1, 260 | 1, 845 |
| 1953 | 597 | 1, 289 | 1, 886 |

The number of futures commission merchants registered also increased, from 623 in the previous year to 658 in the recent year. There was an increase also in the number of offices maintained by futures commission merchants. As of June 30, 1953, futures commission merchants were maintaining 1,886 principal and branch offices, an increase of 41 over the corresponding date 1 year earlier. As re-

flected in table 4, the number of offices at the end of the recent year was larger than for any other year-end in the 10-year period, 1944–53.

The geographic distribution of offices and agents of registered futures commission merchants as of the close of the recent year included all States of the Union except Wyoming, and also the District of Columbia, Hawaii, Puerto Rico, and 15 foreign countries.

## PROTECTION OF CUSTOMERS' FUNDS

Under the Commodity Exchange Act, traders' funds and equities must be segregated by commodity brokers, that is, separately accounted for and not commingled with the funds of the brokerage house, nor used to extend credit to others. This requirement safeguards the funds of the public held by commodity brokers, and prohibits brokers from using customers' funds to finance their own trading operations or those of favored customers.

To determine compliance with the requirements, the CEA made 605 segregation audits of commodity brokers and brokerage firms during the year, compared with 594 such audits during the previous year. The audits during the recent year covered the great majority of brokers and firms registered under the act as futures commission merchants.

| Year ended June 30— | Number of audits | Number of accounts | Amount of customers' funds |
|---|---|---|---|
| 1947 | 457 | 11, 362 | $51, 706, 820. 88 |
| 1948 | 621 | 26, 165 | 139, 234, 712. 14 |
| 1949 | 751 | 28, 064 | 122, 811, 161. 67 |
| 1950 | 695 | 25, 768 | 93, 768, 639. 44 |
| 1951 | 641 | 25, 787 | 145, 602, 818. 23 |
| 1952 | 594 | 28, 884 | 159, 749, 240. 32 |
| 1953 | 605 | 31, 573 | 123, 145, 733. 39 |

Futures commission merchants audited during the year ranged in size from the individual broker with only a few accounts to the very large firms each having more than 1,000 customers. Of the 605 audits during the year, 478 dealt with individual brokers and firms each having customers' funds of less than $100,000, 100 having customers' funds of $100,000 to $1,000,000, 23 having $1,000,001 to $5,000,000, and 4 having more than $5,000,000.

The audits showed no instances during the year in which commodity customers lost money due to financial failure of brokers or brokerage firms registered under the act as futures commission merchants. As in former years, however, the audits showed that a considerable number of firms deviated from the segregation requirements, the most numerous deviations being failure to keep the required amount of funds segregated, improper or unauthorized transfers of money out of customers' accounts, and mixing funds and trades of customers with those of the house.

In most instances these deviations were corrected when pointed out by the accountant in charge of the audit; in others, further action was required to obtain compliance. In the case of a brokerage firm

charged with violation of the segregation requirements, a formal complaint was issued shortly after the close of the fiscal year looking to the suspension or revocation of the respondents' registration and denial of trading privileges.

The audits of brokerage firms provide basic data on the number of commodity accounts in the regulated futures markets, and the amount of customers' funds in these accounts. As shown by the above tabulation, the number of customers' accounts reflected by the year's audits was larger than in any other fiscal year since 1947 when the data were first compiled, although the amount of customers' funds held by brokers was the smallest since fiscal 1950.

Further analysis of the audit data indicates that the average number of commodity accounts per brokerage firm has increased more or less steadily over the past 7 years, although the average amount of money to each customer's credit has varied considerably, being noticeably larger in the 1951 and 1952 fiscal years, and noticeably smaller in the 1950 and 1953 fiscal years, as follows:

| Year ended June 30— | Average number of accounts per audit | Average amount to each customer's credit |
|---|---|---|
| 1947 | 24. 9 | $4, 550. 85 |
| 1948 | 42. 1 | 5, 321. 41 |
| 1949 | 37. 4 | 4, 376. 11 |
| 1950 | 37. 1 | 3, 638. 96 |
| 1951 | 40. 2 | 5, 646. 36 |
| 1952 | 48. 6 | 5, 530. 72 |
| 1953 | 52. 2 | 3, 900. 35 |

Money in customers' accounts averaged $3,900 per customer, representing a decrease of about $1,600 as compared with the previous year. The smaller amount of customers' funds in the recent year reflected reduced speculative margin requirements of the exchanges, and impairment of customers' initial margins due to unrealized losses on open speculative trades.

## REPORTS FROM BROKERS AND TRADERS

Effective enforcement of the act requires day-to-day information on the overall volume of trading, open contracts, and deliveries in the market, and also on the market operations of individual large traders and commodity brokerage firms.

Such information is obtained through a system of required daily reports which has been developed over a period of years. The overall data on trading volume, open contracts, and deliveries are obtained from daily reports of exchange clearing members. Each clearing firm reports after the close of the market the volume of trading by its customers and by the firm itself, and also the total of all long and short positions (open contracts) on its books at the close of the day. From these reports the CEA tabulates and releases each day the volume of trading and open contracts in the markets.

Information on the operations of large traders, both speculators and hedgers, is obtained from confidential daily reports made by the

traders themselves. Large traders are those having positions in excess of amounts fixed by the Secretary of Agriculture for reporting purposes, such as the 200,000-bushel reporting level in wheat futures and the 5,000-bale level in cotton futures. Another phase of the reporting system requires brokerage firms to report daily the holdings of each large-trader account carried on their books. For grains, cotton, and eggs, weekly reports from merchandisers and processors with large futures positions provide data on cash or spot inventories and forward sales positions for comparison with futures positions.

Total reports received from exchange clearing members, brokers, and large traders during the year were estimated at 561,225, representing an 11 percent decrease compared with the preceding year. The decrease was accounted for primarily by the smaller number of trading days in the recent year as compared with the previous year, due to the discontinuation of Saturday trading in grains and a number of other commodities.

The average number of large-trader accounts in all commodities and markets was 743 in the recent year, compared with 719 in the 1952 fiscal year and 656 in 1951.

All reports from brokers and large traders, upon receipt in the 5 CEA field offices, were examined for errors, omissions, and indications of noncompliance. Tabulations on the trading and positions of the larger traders in reporting status were wired to the Washington office each day. Information from the reports continued to be of basic importance in enforcing speculative limits. Data from the reports were used in analyzing and appraising market conditions, and to provide supporting evidence in investigations of alleged or apparent violations of the act.

The reporting system also continued to provide the basic data for the 10 daily releases on volume of trading and open contracts issued by the CEA field offices, covering the various commodities and leading markets under the act, and also most of the data for the monthly publications, Trade in Grain Futures and Trade in Cotton Futures, and the annual statistical publication, Commodity Futures Statistics.

In the interest of efficiency the agency made an intensive study of internal operating procedures involved in the examination of reports, and in the tabulation and utilization of data reported. Changes put into effect or in progress at the end of the year included a reduction in the number of reporting forms, revision of procedural instructions, and increased use of machine tabulation.

## VOLUME OF TRADING

The volume of trading in a futures market is the aggregate of the purchases (or sales) of commodity futures contracts during a day, month, year, or other period of time.

Volume of trading indicates market activity or turnover. It reflects not only the activity of speculators and hedgers who take positions in the market and hold them open overnight or for longer periods, but also the operations of scalpers and other traders who are in and out of the market during the day. Scalping transactions account for a considerable part of total trading in the larger futures markets. In-and-out traders and scalpers react quickly to market news and produce more frequent and extensive changes in trading volume than in traders'

market positions, i. e., open contracts. Since speculative trading comprises a large part of total trading, changes in market volume reflect to some extent the increasing or decreasing interest of speculators in the prospects of profit from advancing or declining futures prices.

As pointed out earlier in this report, the volume of futures trading in all regulated commodities, as measured by the number and value of contracts traded, continued in the 1953 fiscal year at a relatively high level, not greatly changed as compared with the 1952 fiscal year. In fact, the overall volume in the recent year did not differ greatly from the 1951 fiscal year when activity in some of the markets was stimulated considerably by the outbreak of the Korean war, and the attendant rise in prices.

The relatively large volume of trading in the 1953 fiscal year reflected in general a continuation of the active speculative trading and substantial hedging interest which prevailed in the 2 preceding years, although in some commodities the character of both speculative trading and hedging changed considerably.

Table 5 shows **the volume of trading by commodities** on all contract markets in the 1953 fiscal year. In comparison with the previous year there were increases in activity in 9 commodities and decreases in 11. For a variety of reasons the trading volume in a number of markets, including those for rye, grain sorghums, and cottonseed meal, changed markedly during the year. It will be noted, however, that volume changes in most of the larger markets, including those for cotton and major grains, were relatively small as compared with the previous year.

TABLE 5.—*Volume of futures trading on all contract markets combined, by commodities, fiscal years ended June 30, 1952, and June 30, 1953*

| Commodity | Unit | 1952 | 1953 | Percent of increase or decrease |
|---|---|---|---|---|
| Wheat | 1,000 bushels | 4, 341, 690 | 3, 780, 534 | −12. 9 |
| Corn | do | 2, 639, 639 | 2, 811, 204 | +6. 5 |
| Oats | do | 2, 239, 205 | 2, 421, 172 | +8. 1 |
| Rye | do | 426, 587 | 703, 044 | +64. 8 |
| Soybeans | do | 2, 953, 180 | 3, 346, 329 | +13. 3 |
| Flaxseed | do | 40, 926 | 32, 039 | −21. 7 |
| Grain sorghums | Million pounds | [1] 8, 634 | [1] 682 | −92. 1 |
| Rice | 1,000 pounds | 320 | 0 | |
| Cotton | 1,000 bales | 94, 887 | 91, 335 | −3. 7 |
| Wool Tops | 1,000 pounds | 172, 385 | 154, 910 | −10. 1 |
| Butter | Carlots | 8, 368 | 7, 293 | −12. 8 |
| Eggs | do | 90, 005 | 145, 588 | +61. 8 |
| Potatoes | do | 18, 181 | 123, 449 | +579. 0 |
| Cottonseed Oil | 1,000 pounds | 7, 989, 720 | 3, 050, 280 | −61. 8 |
| Soybean Oil | do | 2, 795, 760 | 3, 048, 720 | +9. 0 |
| Lard | do | 1, 323, 880 | 1, 414, 080 | +6. 8 |
| Bran | Tons | 285, 390 | 246, 450 | −13. 6 |
| Shorts | do | 161, 280 | 195, 900 | +21. 5 |
| Cottonseed Meal | do | 584, 900 | 98, 200 | −83. 2 |
| Soybean Meal | do | 1, 972, 500 | 1, 837, 900 | −6. 8 |

[1] Equivalent to 154,179,000 bushels (1952); 12,179,000 bushels (1953).

Futures trading in grains, accounted for primarily by dealings on the Chicago Board of Trade, the Kansas City Board of Trade, and the Minneapolis Grain Exchange, reflected a slight increase. The volume was 13.1 billion bushels for the year compared with 12.8 billions in the preceding year, and an average of 9.5 billions in the 10-year period, 1943–52. In the recent year increased activity in corn, oats, rye, and soybeans somewhat more than offset a decline in wheat and grain sorghums.

The wheat volume on all markets amounted to 3,780,534,000 bushels, representing a 12.9 percent decrease from the 4,341,690,000 bushels traded in the previous year. On the Chicago Board of Trade the decrease in wheat futures trading in the recent year as compared with the previous year was 10.8 percent, on the Kansas City Board of Trade 4.3 percent, and on the Minneapolis Grain Exchange 30.2 percent.

Soybean futures trading, second largest among the grains, amounted to 3,346,329,000 bushels, which was an increase of 13.3 percent over the previous year. Trading in corn and oat futures was also somewhat more active, and the volume in rye was substantially larger than in the previous fiscal year. Trading in grain sorghums, which had developed an active market at Kansas City in the 2 preceding years, declined sharply in the recent year.

Cotton futures trading continued at a relatively high level during the year although the volume, amounting to 91,335,000 bales, was slightly below the 94,887,000 bales traded in the previous year. The volume on the New York Cotton Exchange was 66,296,000 bales, or 72.6 percent of the total; on the New Orleans Cotton Exchange 23,506,000 bales, or 25.7 percent; and on the Chicago Board of Trade 1,533,000 bales, or 1.7 percent.

Dealings in wool tops on the New York market amounted to 154,910,000 pounds. Although activity was about 10 percent below the preceding year, it was the third largest annual volume on record for the commodity.

Activity in potato futures on the New York Mercantile Exchange attracted unusual attention during the year. Potatoes were the only commodity under the act to attract a larger volume of trading during the year than in any preceding year. Trading on the New York market amounted to 121,729 carlots, compared with 17,901 carlots in the previous year. There was also an increase in activity on the smaller Chicago potato futures market.

Futures trading in eggs on the Chicago Mercantile Exchange amounted to 145,588 carlots. This was the second largest annual volume on record for the commodity. Trading in butter futures on the Chicago market was somewhat below the volume in the preceding year.

There was moderately increased activity in soybean oil and lard futures during the year, but a substantially reduced volume in cottonseed oil. The soybean oil trading amounted to 3,048,720,000 pounds and was the second largest volume on record for the commodity. The greater part of this activity was on the Chicago Board of Trade, with a smaller volume on the New York Produce Exchange. Trading in cottonseed oil futures on the New York Produce Exchange amounted to 3,049,740,000 pounds, reflecting a decrease of 61.8 percent compared with the previous year.

Activity in bran and shorts on the Kansas City Board of Trade was not greatly changed from the previous year, the volume in bran being somewhat smaller than in 1951–52, and in shorts somewhat larger.

The Memphis oilmeal futures market continued to have a relatively large volume of trading in soybean meal. In cottonseed meal, however, the futures trading volume decreased sharply, to the lowest level since 1947.

## OPEN CONTRACTS AND HEDGING

"Open contracts" are purchase (or sale) commitments which traders have entered into and which remain outstanding. Open contracts are composed primarily of the hedging commitments of merchants and processors, and speculative holdings of "position" traders (those holding positions open overnight or for longer periods). Open contracts at the close of the day do not reflect the scalping and in-and-out trading of speculators, although such trading may account for a large part of the total volume. Open contracts ordinarily are of greater significance than volume of trading in appraising market conditions and basic price risks.

Since open contracts in the larger markets are composed in considerable part of the holdings of "position" speculators who remain in the market overnight or for longer periods, data on open contracts may reflect the basic speculative interest in the market, and, to some extent, the relatively long-range price opinions of speculators—as contrasted with the temporary price opinions and technical market conditions which play a large part in the daily volume of trading.

Hedging commitments usually comprise a substantial part of the open contracts in the larger futures markets, and frequently influence the trend in open contracts. Increasing or declining levels of open contracts are often related to seasonal factors in marketing. During the major marketing season of a commodity, when large supplies are moving from farms into commercial channels, and are being hedged against price risks with short futures positions, open contracts normally tend upward until the peak of the marketing season is reached, and then decline. Or, if merchants and processors are buying futures in volume to hedge requirements for forward orders for finished goods, this may reflect an upward trend in open contracts.

Table 6 shows the annual average of mid-month and month-end open contracts in regulated commodities for the fiscal years ended June 30, 1952, and June 30, 1953. The table also gives a breakdown of the average amounts of open contracts, long and short, held by small (nonreporting) traders, and by large (reporting) traders, and a sub-breakdown classifying the commitments of large traders reported as speculative (including spreading), and as hedging.

Generally speaking, the average levels of open contracts in cotton and the major grains, including soybeans, equaled or exceeded those of the previous year. Table 6 also indicates that in the markets for most of the major commodities the average holdings of reporting speculators, and the hedging commitments of reporting merchants and processors, did not change greatly as compared with the previous year. In the commodities with smaller futures markets, trends in open contracts were mixed, but with somewhat more increases than decreases. Of the 20 commodities shown in table 6, there were in-

TABLE 6.—*Open contracts and commitments of large (reporting) and small (nonreporting) traders, on all contract markets, average of mid-month and month-end figures, by commodities, fiscal years ended June 30, 1952, and June 30, 1953*

| Commodity and year | Unit | Total open contracts | Small (nonreporting) traders | | Large (reporting) traders | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Speculative[1] | | Hedging | |
| | | | Long | Short | Long | Short | Long | Short |
| Wheat: | | | | | | | | |
| 1951–52 | Million bushels | 107.2 | 51.6 | 29.5 | 35.2 | 25.4 | 20.4 | 52.3 |
| 1952–53 | do | 106.8 | 49.9 | 26.0 | 36.1 | 25.7 | 20.8 | 55.1 |
| Corn: | | | | | | | | |
| 1951–52 | do | 65.9 | 37.9 | 24.1 | 21.8 | 15.2 | 6.2 | 26.6 |
| 1952–53 | do | 67.1 | 38.3 | 24.6 | 20.3 | 16.0 | 8.5 | 26.5 |
| Oats: | | | | | | | | |
| 1951–52 | do | 67.3 | 51.0 | 20.3 | 15.3 | 15.7 | 1.0 | 31.3 |
| 1952–53 | do | 84.4 | 64.8 | 22.1 | 18.5 | 19.0 | 1.1 | 43.3 |
| Rye: | | | | | | | | |
| 1951–52 | do | 10.0 | 7.5 | 5.7 | 2.2 | 2.1 | .3 | 2.2 |
| 1952–53 | do | 17.3 | 14.1 | 8.0 | 3.1 | 4.6 | .1 | 4.7 |
| Soybeans: | | | | | | | | |
| 1951–52 | do | 47.9 | 27.9 | 25.3 | 12.4 | 12.7 | 7.6 | 9.9 |
| 1952–53 | do | 54.1 | 30.8 | 30.4 | 15.3 | 12.0 | 8.0 | 11.7 |
| Flaxseed: | | | | | | | | |
| 1951–52 | do | 2.1 | 1.9 | 1.0 | .1 | 0 | .1 | 1.1 |
| 1952–53 | do | 2.2 | 1.6 | 1.1 | .2 | .3 | .4 | .8 |
| Grain sorghums: | | | | | | | | |
| 1951–52 | Million pounds | 572.0 | 223.0 | 117.0 | 169.0 | 17.0 | 180.0 | 438.0 |
| 1952–53 | do | 24.0 | 12.0 | 18.0 | 7.0 | 2.0 | 5.0 | 4.0 |
| Rice: | | | | | | | | |
| 1951–52 | do | .1 | .1 | .1 | 0 | 0 | 0 | 0 |
| 1952–53 | do | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cotton: | | | | | | | | |
| 1951–52 | Million bales | 3.6 | 1.9 | 2.0 | .7 | .6 | 1.0 | 1.0 |
| 1952–53 | do | 3.7 | 2.3 | 1.9 | .6 | .5 | .8 | 1.3 |
| Wool tops: | | | | | | | | |
| 1951–52 | Million pounds | 13.7 | 9.4 | 4.3 | 1.8 | .8 | 2.5 | 8.6 |
| 1952–53 | do | 14.7 | 7.9 | 4.1 | 1.9 | .7 | 4.9 | 9.9 |
| Butter: | | | | | | | | |
| 1951–52 | Thousand carlots. | .5 | .3 | .1 | .1 | (2) | .1 | .4 |
| 1952–53 | do | .6 | .4 | .2 | .1 | (2) | .1 | .4 |
| Eggs: | | | | | | | | |
| 1951–52 | do | 2.3 | 1.7 | 1.2 | .4 | .3 | .2 | .8 |
| 1952–53 | do | 3.0 | 2.2 | 1.9 | .8 | .5 | (2) | .6 |
| Potatoes: | | | | | | | | |
| 1951–52 | do | 1.4 | .9 | .8 | .2 | .3 | .3 | .3 |
| 1952–53 | do | 4.0 | 2.4 | 1.8 | 1.1 | 1.0 | .5 | 1.2 |
| Cottonseed oil: | | | | | | | | |
| 1951–52 | Million pounds | 394.9 | 244.7 | 71.3 | 122.6 | 68.3 | 27.6 | 255.3 |
| 1952–53 | do | 187.9 | 67.3 | 34.8 | 83.7 | 55.1 | 36.9 | 98.0 |
| Soybean oil: | | | | | | | | |
| 1951–52 | do | 158.8 | 104.0 | 22.8 | 32.1 | 43.3 | 22.7 | 92.7 |
| 1952–53 | do | 155.7 | 75.5 | 17.0 | 52.1 | 45.0 | 28.1 | 93.7 |
| Lard: | | | | | | | | |
| 1951–52 | do | 73.7 | 49.8 | 23.1 | 9.8 | 12.9 | 14.1 | 37.7 |
| 1952–53 | do | 92.3 | 71.0 | 12.1 | 18.4 | 6.6 | 2.9 | 73.6 |
| Bran: | | | | | | | | |
| 1951–52 | Thousand tons | 14.6 | 8.0 | 4.7 | 1.5 | .2 | 5.1 | 9.7 |
| 1952–53 | do | 13.8 | 7.7 | 5.1 | .3 | .1 | 5.8 | 8.6 |

See footnotes at end of table.

TABLE 6.—*Open contracts and commitments of large (reporting) and small (nonreporting) traders, on all contract markets, average of mid-month and month-end figures, by commodities, fiscal years ended June 30, 1952, and June 30, 1953*—Continued

| Commodity and year | Unit | Total open contracts | Small (nonreporting) traders | | Large (reporting) traders | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Speculative [1] | | Hedging | |
| | | | Long | Short | Long | Short | Long | Short |
| Shorts: | | | | | | | | |
| 1951–52 | Thousand tons | 8. 8 | 4. 6 | 3. 5 | 0. 6 | 0. 1 | 3. 6 | 5. 2 |
| 1952–53 | do | 13. 1 | 4. 7 | 4. 4 | . 9 | . 1 | 7. 5 | 8. 6 |
| Cottonseed meal: | | | | | | | | |
| 1951–52 | do | 50. 5 | 12. 1 | 23. 9 | 15. 1 | 19. 0 | 23. 3 | 7. 6 |
| 1952–53 | do | 12. 4 | 6. 7 | 8. 9 | 3. 0 | 2. 5 | 2. 7 | 1. 0 |
| Soybean meal: | | | | | | | | |
| 1951–52 | do | 158. 0 | 39. 7 | 48. 3 | 66. 0 | 41. 4 | 52. 3 | 68. 3 |
| 1952–53 | do | 121. 4 | 37. 9 | 36. 3 | 39. 7 | 38. 0 | 43. 8 | 47. 1 |

[1] Includes spreading or straddling.
[2] Less than 50 carlots.

creases in the average level of open contracts in 12 commodities as compared with the previous year, and decreases in 8.

In grains, the trend toward increasing levels of open contracts, which has been in progress since the close of World War II, continued during the recent year. The data for recent years indicate that the leading grain futures markets have offered an increasingly dependable and stable basis for hedging operations, notwithstanding fluctuations in speculative activity.

Average open contracts in wheat in the 1953 fiscal year, amounting to 106,800,000 bushels, were only slightly below the 1952 level, which was the highest in more than 10 years. In corn the recent year's average level of open contracts was 67,100,000 bushels, the largest in nearly 20 years; and in oats the figure was 84,400,000 bushels, the largest in 30 years. The average level of open contracts in soybeans, amounting to 54,100,000 bushels in the recent year, has been equaled in only 1 other year—1950. In each of these commodities the hedging interest as reflected in table 6 was above the level of the previous year.

Commodities which reflected marked increases in average open contracts as compared with the preceding year included oats, rye, shorts, eggs, and potatoes. The data in table 6 shows that in oats, shorts, and lard there was a rather substantial increase in the amount reported as short hedging. Larger speculative participation was primarily responsible for the higher levels of open contracts in rye, eggs, and potatoes.

The sharp decline in cottonseed oil open contracts during the year was attributed primarily to the effects of the cottonseed price support program. The quantity of oil inventories hedged in the futures mar-

ket was much smaller than in the previous year, and there was also a sharp curtailment of speculative interest in the commodity. In soybean oil the amounts reported as hedging, shown in table 6, were about the same as in the previous year.

The data in table 6 also reflect a marked reduction in the level of open contracts in cottonseed meal, and in the speculative and hedging commitments of reporting traders. In soybean meal declines in open contracts and in commitments of various classes of traders were more moderate.

## INVESTIGATIONS TO SUPPRESS VIOLATIONS

An increased number of investigations was required during the year to deal with apparent substantive violations of the Commodity Exchange Act. The CEA made 48 such investigations in the recent year, compared with 28 in the previous year.

The results of the investigations during the recent year were as follows: In 4 instances formal administrative complaints were issued charging the persons and firms involved with violation of the act, looking toward public hearings on the charges, and decisions by the judicial officer of the Department; in 4 other instances the traders and brokers involved entered into stipulations of compliance to discontinue violations in lieu of formal complaints being filed against them; in 18 instances traders and brokers received warning letters officially notifying them that any recurrence of willful failure to fully comply with requirements would result in formal complaints. In 22 instances no actionable violations were found.

Of the 26 actionable violations, 2 involved price manipulation or attempted price manipulation, 4 were instances of traders exceeding speculative limits, 3 were improper handling of customers' funds, and 17 were failure or refusal to file required reports on large trading operations.

A considerable number of the actionable violations resulting in stipulations of compliance and warning letters arose from willful failure to file required reports, and consequently were not particularly complicated. However, there were two large-scale investigations involving apparent manipulation of prices, and one rather extensive investigation involving an apparent attempt to evade speculative limits.

## ADMINISTRATIVE DISCIPLINARY PROCEEDINGS

In addition to violations resulting in warning letters and stipulations of compliance, the following formal complaints and administrative proceedings were initiated during the year or continued from the preceding year:

CE–A Docket No. 48. *In re Great Western Food Distributor, Inc., Nathaniel E. Hess, Charles S. Borden, Thomas F. Haynes, and Hartley L. Harris.*—A complaint of July 12, 1948, charged that the respondent corporation obtained a dominant and controlling position in the December 1947 egg futures market in Chicago, cornered the commodity in Chicago and in interstate commerce, and attempted to manipulate the price, in violation of sections 6 (b) and 9 of the act.

Hearings in this case were held in Chicago on various dates in 1949, and the report of the referee filed August 29, 1950. The judicial officer of the Department, in a decision and order of June 20, 1951, found the respondent corporation, Hess, and Borden, guilty as charged, and directed all contract markets to refuse them trading privileges for a 1-year period. The proceedings against Haynes and Harris were dismissed. The order of June 20, 1951, was stayed when the respondents appealed to the United States Court of Appeals for the Seventh Circuit. On January 14, 1953, the appeals court upheld the decision and order of June 20, 1951, and subsequently denied a request of the respondents for a rehearing. The respondents appealed to the United States Supreme Court, petitioning for a writ of certiorari, but on June 15, 1953, the Supreme Court denied their appeal. Accordingly, on July 22, 1953, the judicial officer removed the stay order in this case and directed that the original order of June 20, 1951, become effective on September 1, 1953, denying Great Western, Hess, and Borden trading privileges on all contract markets for a 1-year period. On July 31, 1953, the judicial officer modified the original order to permit the respondents to trade for customers other than each other.

CE–A Docket No. 54. *In re George Sirota and Sons, George Sirota, Norman L. Sirota, Benjamin Sirota, Harry A. Aspinwall, and Dyke Cullum.*—A complaint and notice of hearing entered November 6, 1950, charged that Sirota & Sons, a brokerage firm, Aspinwall, an employee, and Cullum, a trader, agreed and planned to operate futures trading accounts so as to conceal the true names of the owners of the accounts, for the purpose of evading reporting requirements under the act, and that the respondents did evade such requirements with respect to open contracts in soybean oil and cottonseed oil on the New York Produce Exchange. The complaint also charged that the Sirota respondents and Aspinwall failed to record in writing the true names of the parties involved in the transactions. A charge that the Sirota respondents misused the funds of one customer to margin transactions of another was subsequently found to be unsupported by the evidence and was dismissed upon the recommendation of the CEA.

After hearings in January, February, and March 1951, the referee's report, filed March 12, 1952, recommended that the respondents be denied trading privileges for a period of 15 days. The referee agreed to the recommendation of the CEA that the charge against the Sirota respondents of mishandling customers' funds be dismissed. All the respondents filed exceptions to the referee's report, and oral argument was held before the judicial officer on February 26, 1953.

The judicial officer's decision and order, dated July 31, 1953, found George Sirota and Sons, Norman L. Sirota, Benjamin Sirota, and Aspinwall, guilty of keeping false records, and aiding Cullum in evading reporting requirements. The registrations of George Sirota and Sons as a futures commission merchant, and of Norman L. Sirota, Benjamin Sirota, and Harry A. Aspinwall, as floor brokers, were ordered suspended for a period of 10 days, and the trading privileges of Cullum were ordered denied for a like period, to become effective September 1, 1953.

CE–A Docket No. 55. *In re Corn Products Refining Company.*—A complaint and notice of hearing filed July 22, 1952, charged that

on various days in 1952 the respondent held corn futures positions on the Chicago Board of Trade in excess of the speculative limit of 2,000,000 bushels. The respondent's net long position in corn futures on a given date in April 1952 amounted to approximately 3,650,000 bushels. Since no part of this amount represented spreads in the same grain between markets, and only approximately 207,000 bushels represented bona fide hedging transactions as defined in the Commodity Exchange Act, the balance of approximately 3,443,000 bushels represented speculative positions, according to the complaint. Hearings before the referee were held on October 14 and 15, 1952, and on March 3, 1953, and the case was pending at the close of the year.

CE–A Docket No. 56. *In re Gaston Godoy.*—A complaint and notice of hearing entered February 21, 1953, charged Godoy, a trader of Havana, Cuba, with repeated failure to report positions in lard and soybean oil futures on the Chicago Board of Trade and in cotton futures on the New York Cotton Exchange, in violation of the act. The case was pending at the close of the fiscal year.

CE–A Docket No. 57. *In re L. Rudolf Company, Inc., and William Schaffer.*—A complaint and notice of hearing of March 7, 1953, charged that Schaffer, an officer of L. Rudolf Co., Inc., manipulated the price of a grade of cash eggs on the New York Mercantile Exchange by making a rapid succession of bids at the close of the trading session, which were not bona fide bids for the purpose of acquiring the commodity, and which caused fictitious prices to be registered on the exchange. The complaint was based partly on statements by witnesses whose testimony at the hearing varied so greatly from previous statements that the Government entered a motion to dismiss the complaint for want of evidence. The motion to dismiss was granted by the judicial officer on July 16, 1953.

CE–A Docket No. 58. *In re Cargill, Inc., and Erwin E. Kelm.*—A complaint and notice of hearing filed June 11, 1953, charged that Cargill, Inc., and Erwin E. Kelm, vice president of the corporation, exceeded speculative limits in oat futures, made false reports in connection therewith, and manipulated and depressed the price of oats in the Chicago market.

The complaint charged that Cargill arranged and shifted large positions in oat futures between its own books and those of its wholly-owned Canadian subsidiary in such a way as to represent and report to the CEA, as hedging transactions, large holdings which were in fact speculative, and built up short sales in United States oat futures markets which late in 1951 amounted to approximately 31,000,000 bushels. Simultaneously, Cargill was buying large quantities of Canadian oat futures in the Winnipeg market which could be converted to cash oats and imported into the United States. Early in 1952 when Chicago oat prices declined sharply in relation to Winnipeg, Cargill's profit position on its short sales increased accordingly. When Cargill began closing out its short sales in the Chicago March future, partly by covering purchases and partly by deliveries, it further increased its profit position—and further depressed the Chicago market—the complaint charges, by delivering Canadian oats imported at a loss. The complaint also charges that Cargill employed virtually the same type of operations to manipulate and depress the price of the May 1952 oat future.

## CRIMINAL CASES

Proceedings charging violations of the criminal provisions of the act were pending before the United States district court at Chicago at the close of the fiscal year, as follows:

In the case against Charles B. Grady, charged in a criminal information with swindling commodity customers, the defendant was tried before the United States district court at Chicago, and on February 1, 1950, was sentenced to 1 year in prison and fined $5,000. On appeal by the defendant, the United States Court of Appeals for the Seventh Circuit on November 15, 1950, remanded the case to the district court for retrial.

In the cases in which Great Western Food Distributors, Inc., and certain other defendants, were charged with violations of the criminal provisions of the act in the 1949 egg futures market, the defendants were indicted by a Federal grand jury in New York City on April 22, 1952, on the basis of information developed in CEA investigations. A criminal information filed at Chicago on April 25, 1952, charged that Great Western Food Distributors, Inc., Industrial Raw Materials Corp., Nathaniel E. Hess, Edward B. Gotthelf, Jack Rauch, and Charles S. Borden attempted to manipulate and attempted to corner October 1949 egg futures in violation of the Commodity Exchange Act. Another criminal information filed the same day charged Great Western and Nathaniel E. Hess with monopoly in violation of the Sherman Antitrust Act and with manipulation and cornering in violation of the Commodity Exchange Act, all relating to their transactions in November 1949 egg futures. Upon petition by the defendants for a change of venue, the New York indictment was subsequently transferred to the United States district court in Chicago where the indictment and the two criminal informations were joined.

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